



**NATIONAL
ENDOWMENT
FOR THE ARTS**

**PERFORMANCE & ACCOUNTABILITY REPORT
FISCAL YEAR 2009**

Submitted to the Congress,
the Office of Management and Budget,
the Department of the Treasury, and
the Government Accountability Office
November 2009

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NATIONAL ENDOWMENT FOR THE ARTS

www.arts.gov

Performance & Accountability Report for Fiscal Year 2009 November 2009

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Fiscal Year 2009 Performance and Accountability Report ~ A Message from the Chairman ~

I am pleased to present the National Endowment for the Arts' *Fiscal Year 2009 Performance and Accountability Report*. This report summarizes the Agency's performance and accomplishments – programmatically, financially, and operationally – during the past year.

Mission and Organizational Overview

The National Endowment for the Arts is a public agency dedicated to supporting excellence in the arts, both new and established; bringing the arts to all Americans; and providing leadership in arts education. Established by Congress in 1965 as an independent agency of the Federal government, the Arts Endowment supports art of indisputable artistic merit and broad public reach in all 50 States, the District of Columbia, and special jurisdictions, reaching rural areas, inner cities, metropolitan areas, and military installations – both here at home and overseas. We are committed to providing the American people with access to the best of their artistic legacy and do so through achievement of three clear and unambiguous goals:

- *Access to Artistic Excellence* – by supporting projects that encourage and support artistic excellence; preserve our cultural heritage; and provide access to the arts for all Americans.
- *Learning in the Arts* – by supporting projects that advance arts education for children and youth.
- *Partnerships for the Arts* – by developing and maintaining partnerships that support excellence in the arts – both new and established – bringing the arts to all Americans, and providing leadership in arts education.

We carry out our activities primarily with funds appropriated by the Congress to the Arts Endowment, but also with funds donated from the private sector and transfers from other Federal agencies. We pursue our goals primarily through grantmaking, but also through our leadership, convening, research, communication and dissemination, and partnership activities. All of these are discussed elsewhere in this report.

Performance Goals, Objectives, and Results

This Performance and Accountability Report demonstrates the successes achieved by the National Endowment for the Arts through the following strategies.

- Serving as a national voice and leader for excellence in the arts.
- Awarding thousands of competitive grants every year to encourage artistic excellence and advance arts education.

- Creating model programs of indisputable artistic merit and broad national reach.
- Ensuring complete geographic coverage of our programs.
- Developing and promoting effective models for arts education.
- Providing focused leadership and careful management to improve Agency performance and productivity.

Over the last several years, the National Endowment for the Arts has reinforced its historic commitment to excellence. A vast array of Agency programs and initiatives are providing Americans with opportunities to experience the best of the arts. These include:

- Program Initiatives such as the *Big Read*; the expanded *NEA Jazz Masters* program; the *Arts Journalism Institutes*; the *Poetry Out Loud: National Recitation Contest*; and *Operation Homecoming: Writing the Wartime Experience*; as well as continued support for an ongoing Shakespeare program, *Shakespeare for a New Generation*.
- Outreach such as the *Challenge America: Reaching Every Community* program; grant information workshops, held in communities throughout the Nation; an online newsletter; and our user-friendly Web site.
- Management improvements such as the signing of an inter-agency agreement with the Department of Transportation (DOT) to provide the Agency with its first Office of Federal Financial Management-compliant financial system; the introduction of new services made possible by increased application of technology, such as the requirement that all grant applications be submitted electronically; and the creation of an Agency intranet, which includes tools such as meeting room scheduling, Agency calendars, and electronic forms.

Data Reliability

The financial and performance data contained in this report are, to the best of our knowledge, complete and reliable. During the course of our FY 2009 audit, the auditors identified one material weakness related to assignment of administrative costs to program goals; the Agency concurred with and immediately acted on the auditor's recommendation, which resolved the weakness. In addition, one significant deficiency, related to accounting for advances to certain grantees, was identified and will be resolved by the middle of FY 2010.



Rocco Landesman
Chairman

November 16, 2009



Fiscal Year 2009 Performance and Accountability Report ~ Management's Discussion and Analysis ~

Mission and Organizational Structure

The National Endowment for the Arts is the Federal agency dedicated to supporting excellence in the arts – both new and established – bringing the arts to all Americans, and providing leadership in arts education. The Arts Endowment's successes are achieved through the following strategies.

- Serving as a national voice and leader for excellence in the arts.
- Awarding thousands of competitive grants every year to encourage artistic excellence and advance arts education.
- Serving the American people by creating model programs of indisputable artistic merit and broad national reach.
- Ensuring complete geographic coverage of our programs.
- Developing and promoting effective models for arts education.
- Providing focused leadership and careful management to improve Agency performance and productivity.

The Arts Endowment supports art of indisputable merit and broad public reach in all 50 States, the District of Columbia, and special jurisdictions, reaching rural areas, inner cities, metropolitan areas, and military bases. We are committed to providing the American people with access to the best of their artistic legacy.

An independent Federal agency, the Arts Endowment was established by Congress in 1965 and is lead by a Chairman – appointed by the President and confirmed by the United States Senate – and advised by the National Council on the Arts. Fourteen private citizens are appointed by the President and confirmed by the Senate; six ex officio members are Members of Congress appointed by Senate and House leadership.

The Arts Endowment is structured around several major programmatic and administrative Divisions headed by three Deputy Chairmen, a Chief Information Officer (CIO), and several other office heads – all of whom report to a Senior Deputy Chairman, the Agency's Chief Operating Officer. The Senior Deputy Chairman reports to the Chairman, who also has a support staff and several office directors reporting directly to him. The major program Division, Grants and Awards, organized primarily around artistic disciplines, is chiefly responsible for handling the review of grant applications. An organizational chart can be found at the end of this section. In FY 2009, the Agency operated with a staffing level of approximately 163 full time equivalents.

Arts Endowment Status

Critical to the Agency's success is the attention focused on leadership and careful management. We believe that the Arts Endowment has been quite successful in this effort; the following selected examples provide evidence.

1. Improved Grants Management

Interagency Efforts. The Arts Endowment continues to participate in interagency work groups and specially formed teams to assist with government-wide streamlining efforts. The Agency's Grants & Contracts Officer serves on the multi-agency Grants Policy Committee (GPC), which is the governing board for all Federal grants streamlining activities (formerly under P.L. 106-107) and the CIO serves on the multi-agency Grants Executive Board, which focuses on Grants.gov and the goals of the Grants Management Line of Business initiative. The G&C Officer has been participating in interagency efforts to establish a Grants management series, competencies, and training for Federal grants management personnel. She and the Senior Grants Specialist attended focus group sessions and have helped develop and review material for OPM and the GPC.

Recovery Act. The Arts Endowment worked with other agencies to respond to issues related to the Recovery Act. For example, we were a sounding board for the review and discussion of policies, Section 1512 reporting requirements, and State cost allocation recovery. The Recovery Act provided numerous opportunities and challenges for us; for example:

- A new review process was implemented for the Recovery Act, and it has suggested new ways of improving our existing review process; additional evaluation will take place during FY 2010
- Specific tools were developed to review data from Recovery act grantees against data in our system; parameters were developed to highlight outliers which helped us hone in on immediate data issues and work with grantees to clarify their reporting.

Other Internal Efforts. We continue to simplify our application requirements. Where possible, we have replaced hard copy application support items with electronic versions. Mirroring government-wide efforts, we have made many of our Agency-specific application forms "generic" so that they can be used across funding opportunities; we implement the use of new standard Federal forms as they are adopted; and we developed the "File Viewer" tool, which houses all electronic grant application submissions, allowing access by multiple Agency staff and reducing the need to distribute hard files. Additional tools have been created by the Agency's Information & Technology Management (ITM) Division that help improve grants management:

Grants Management System (GMS) Utilities – has several functions, including allowing discipline staff to:

- Upload spreadsheet information (following a standard template) which imports hundreds of data elements for each individual GMS record. Previously, NEA discipline specialists had to go into every record and undertake individual data entry for numerous fields.
- Request grant numbers. This program ensures that grant numbers are generated more efficiently.
- Run a variety of reports, and produce labels, rejection letters, and cover letters, among other things. Previously, each of these required requests to ITM and a single person had to process every request. Now discipline staff for every program area can take care of these themselves.

GMS Address Update Program – allows Agency Grants staff to confirm Congressional data concurrently with updating the grants constituent database. Previously, two separate programs were required, or the Grants staff had to request updates from ITM.

GMS Duplicate Record Removal Program – cleans up duplicate records for the same constituent. The user can select the most relevant one, merge the two records to include the correct information, and delete the duplicate as appropriate. This saves at least 15 minutes of work for each record.

Improved Grantee Compliance. Our efforts to help grantees improve their accountability and understanding of Federal grants include:

- The Arts Endowment's OIG has increased its financial management and compliance evaluations and limited scope audits of grantees by focusing on metropolitan areas where they can coordinate visits with several grantees during a fixed period of time. During FY 2009, 13 evaluations and audits in six States were conducted.
- The Grants & Contracts Office continues to provide one-on-one assistance in all areas of grants compliance. In FY 2009, an additional level of effort was required to meet and manage the requirements of the Recovery Act. A new, part-time grants specialist was hired to help guide the implementation and monitoring of the Recovery Act program's requirements. In addition, a staff person was reassigned to the Grants & Contracts office in July, 2009, and four other staff persons were delegated to work on the Recovery Act program.
- The NEA Web site helps applicants become more self-sufficient regarding Federal grants management through resources such as *Grant-At-A-Glance*, where grantees can access information about their current and past grants to

help them manage their awards. A downloadable and fillable *Section 504* self-assessment workbook is available on our Web site. This Program Evaluation Workbook is designed to assist grant recipients in evaluating the current state of accessibility of their programs and activities to visitors and employees with disabilities. The workbook is intended to assist organizations in their efforts to: (a) comply with the Endowment's regulations implementing Section 504 of the Rehabilitation Act of 1973, as amended, including the preparation of a self-evaluation of all programs, activities, policies and practices to determine areas of noncompliance, and (b) better understand the relationship between 504 and the Americans with Disabilities Act (ADA).

2. Effective Outreach

Grants Workshops. There is a great demand for funding from the Arts Endowment and, as a result, the grant process is extremely competitive. The Agency is committed to broad public and geographic outreach. By offering grants workshops, often hosted by Members of Congress, the Arts Endowment provides public service and important information to small and mid-size nonprofit organizations throughout the country. By providing general technical assistance to potential applicants and grantees at community, State, and national workshops and conferences, the Arts Endowment ensures that underserved areas have knowledge of funding opportunities available to them. Since the inception of the program in 2002, more than 6,000 people have attended 80-some workshops conducted in 25 States and Puerto Rico.

Leadership Initiatives. Planning for and effective delivery of the Agency's leadership initiatives requires extensive interaction with arts organizations, school systems, and underserved communities in all 50 States.

International Efforts. The Chairman of the Arts Endowment is called upon by the U.S. Department of State, Bureau of Educational and Cultural Affairs, to represent the U.S. with cultural officials of other countries.

3. Strategic Management of Human Capital

We have established human capital (HC) strategies that enable us to carry out the Agency's Strategic Plan. We manage our HC programs consistent with applicable internal controls and merit-based principles – confirmed by the 2004-2005 Human Resource Management Delegated Examining oversight review conducted by the Office of Personnel Management (OPM). And we build our budgets and programs consistent with our available HC resources.

We conduct assessments on an ongoing basis to ensure that our staffing level and competency mix are sufficient to operate effectively and achieve our mission. During this past year, as a result of this assessment process, we made the following changes:

- Placed the Office of Research and Analysis and the Office of General Counsel under the direction of the Senior Deputy Chairman,
- Eliminated the Development Office, while maintaining the function at a reduced level of activity.

We sustain a high-performing workforce as evidenced by our capacity to manage our demanding application and grant workloads without commensurate increases in resources. Training is critical to this effort, particularly as employees retire and new staff arrive; we make available annual leadership training to improve and enhance performance, and to serve as a key element of succession planning¹.

4. Expanded E-Gov

The National Endowment for the Arts has been an active partner in Grants.gov from its inception. We are pleased to report that we post electronic application packages for 100% of our discretionary and mandatory funding opportunities. FY 2009 was the second year for which electronic application via Grants.gov was required of all applicants, both organizations and individuals.

The National Endowment for the Arts worked with applicants to heighten awareness and acceptance of Grants.gov; encouraged them to register with Grants.gov; and assisted their transition to using Grants.gov through customized instructions, workshops, and technical assistance.

The Agency also continues working internally to revise business practices to accommodate electronic applications. NEA staff can now access, review, and print electronic application materials via their desktop PCs. In an ongoing pilot effort, we are making electronic application materials available to some NEA panelists so that they have the option of using “portable” versions (instead of bulky notebooks) that can be easily taken anywhere – while on travel, for example – to study in advance of panel meetings. In addition, we have begun a comprehensive review of alternatives for increasing the use of technology in our application review process.

In line with the government-wide Grants Management Line of Business (GMLoB) initiative, we received approval from OMB to address our need for a new grants management system to replace our decades-old and severely limited system with one developed and maintained by the National Endowment for the Humanities (NEH). The preliminary work began in FY 2008, and we expect to begin using the NEH system by the end of 2010.

We are also working to ensure compliance with other applicable Administration initiatives such as those required by the Federal Funding Accountability and

¹ The average years of Federal service for Agency staff is currently 14.5. At the end of FY 2009, 21.4% of Agency staff were eligible for optional retirement.

Transparency Act, which calls for a publicly-accessible and searchable database of all Federal grants and contracts.

5. Improved Financial Management

With the conversion of our legacy financial system to the Oracle-based fully-compliant financial system referenced above, we continue to experience significant improvements in reliability and timeliness of financial information.

6. Integration of Budget and Performance

We prepare our budget requests as performance budgets, with performance data integrated throughout. This integration ensures that Agency goals, programs, and budget categories are aligned with and mirror one another. For example, Agency general goals and annual performance goals are one and the same. We have developed program outcomes and indicators to assess achievements in relation to plans. Indicators are generally statistical in nature. We also are using indicators to determine areas of adjustment or emphasis in our budget request, where appropriate.

Performance Goal Highlights: Trends and Actions

The National Endowment for the Arts is committed to serving the American people through three clear and unambiguous goals:

- *Access to Artistic Excellence* – by supporting projects that encourage and support artistic excellence, preserve our cultural heritage, and provide access to the arts for all Americans.
- *Learning in the Arts* – by supporting projects that advance arts education for children and youth.
- *Partnerships for the Arts* – by developing and maintaining partnerships that support excellence in the arts – both new and established – bring the arts to all Americans, and provide leadership in arts education.

For each of the above performance goals, we have identified several outcomes that we intend to achieve, and we have established performance indicators for each outcome – all of which tie directly back to our mission statement. Since FY 2009 has just ended, we cannot yet report on final accomplishments related to our grantmaking during that year. As we regularly explain in our annual performance reports, actual performance data from each fiscal year is not available until final reports on funded projects have been received. We have established a threshold of 90 percent of such reports as a level that allows us to make reliable assessments of actual performance. This threshold is usually reached within approximately two years after the end of the fiscal year in which the awards were made (e.g., by the end of FY 2009, we had received 93% of the FY 2007 final reports). These

final reports include statistical data tied to our performance indicators that establish the degree to which we are accomplishing our objectives.

In each year's performance plan, we provide estimates of what will be accomplished as a result of our funding. For example, with FY 2009 funding, we estimate that 40-45 million individuals will directly benefit from projects whose primary purpose is to make art widely available to the public. Other estimates of Agency-wide accomplishments for the more than 2,400 grants and cooperative agreements awarded that year (excluding almost 700 grants awarded through the American Recovery and Reinvestment Act of 2009) include:

- More than 100 million individuals benefiting from Agency programs (exclusive of television and radio broadcast audiences), including 10 million children and youth.
- A combined audience of hundreds of millions receiving opportunities to benefit from Agency programs that support national and regional broadcast performances on radio and television, both single and recurring programs.
- 100 percent of Congressional districts receiving at least one direct grant.
- Nearly 4,000 communities participating in Agency-sponsored, discretionary projects – many benefiting from projects such as touring and outreach that take place in communities beyond that of the grant recipient.
- More than 2,000 communities participating in projects funded by a combination of Federal funds and State Arts Agency and Regional Arts Organization funds.
- 18,000 community organizations partnering with grantees on Arts Endowment-supported projects.
- Arts Endowment awards generating \$600 million or more in matching support; in our direct grant-making categories alone, this translates into a ratio of matching to Federal funds that far exceeds the required one-to-one match.
- Arts Endowment awards helping to make possible 40,000 concerts, readings, and performances; 5,000 exhibitions (including visual and media arts); and 8,000 artist residencies in schools and other locations.
- Internationally, 70 U.S. professional arts organizations and 350 artists providing performances, exhibits, and other arts activities in 30 countries.

The grantees' final reports provide the information that allows us to report what we have actually accomplished across the country with our programmatic activities. We have found the actual results to be quite consistent with our projections, and periodic reviews of the grantee reporting process have confirmed the accuracy and relevance of our performance data. Thus, we believe that the performance data we receive (which are reported in our annual performance reports) indicate that our goals for these programs are being met, and

the critiques we receive from the panelists who convene to review grant applications and discuss program policies confirm that our programs are effective.

A significant factor in our projected and actual performance is that, beyond establishing eligibility criteria, we have no control over how many applications we receive each year, or in what category. Nonetheless, our performance projections over the past several years have proved to be consistent with actual performance as reported by our grantees, providing us with confidence that our projections are realistic and our programs effective. We can also confidently assert the efficiency of our programs as we have continued to do more with modest increases in our resources.

Analysis of Financial Statements

Underlying the Agency's programmatic achievements is our commitment to organizational excellence and sound financial management. During this year's audit, one material weakness was identified (the first since FY 2003), concerning the need to assign administrative costs to program goals. We concurred with the auditors' recommendation and immediately developed a cost accounting methodology to address the issue, resulting in an immediate resolution of the weakness. The auditors also identified one significant deficiency related to the need to characterize certain grant disbursements as advances rather than reimbursements. Again, we responded immediately and committed to a course of action that will result in complete resolution of the deficiency by the middle of FY 2010.

The Arts Endowment's principal financial statements have been prepared to report the financial position and results of operations of the Agency, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Arts Endowment in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The Arts Endowment receives an annual appropriation of "no-year" funds from Congress, and has been granted authority to receive donations and invest in interest-bearing accounts. Accounts are maintained for restricted as well as unrestricted funding, and the same guidelines are used to account for both appropriated and non-appropriated funds. The Arts Endowment's property, plant, and equipment are recorded at cost and are depreciated according to a written asset capitalization policy.

Systems, Controls, and Legal Compliance

The National Endowment for the Arts is cognizant of the importance of establishing and maintaining adequate controls over its programs and administrative functions. Management continues to evaluate and modify existing controls – and establish new ones as appropriate – to ensure that we are able to provide reasonable assurance that we are

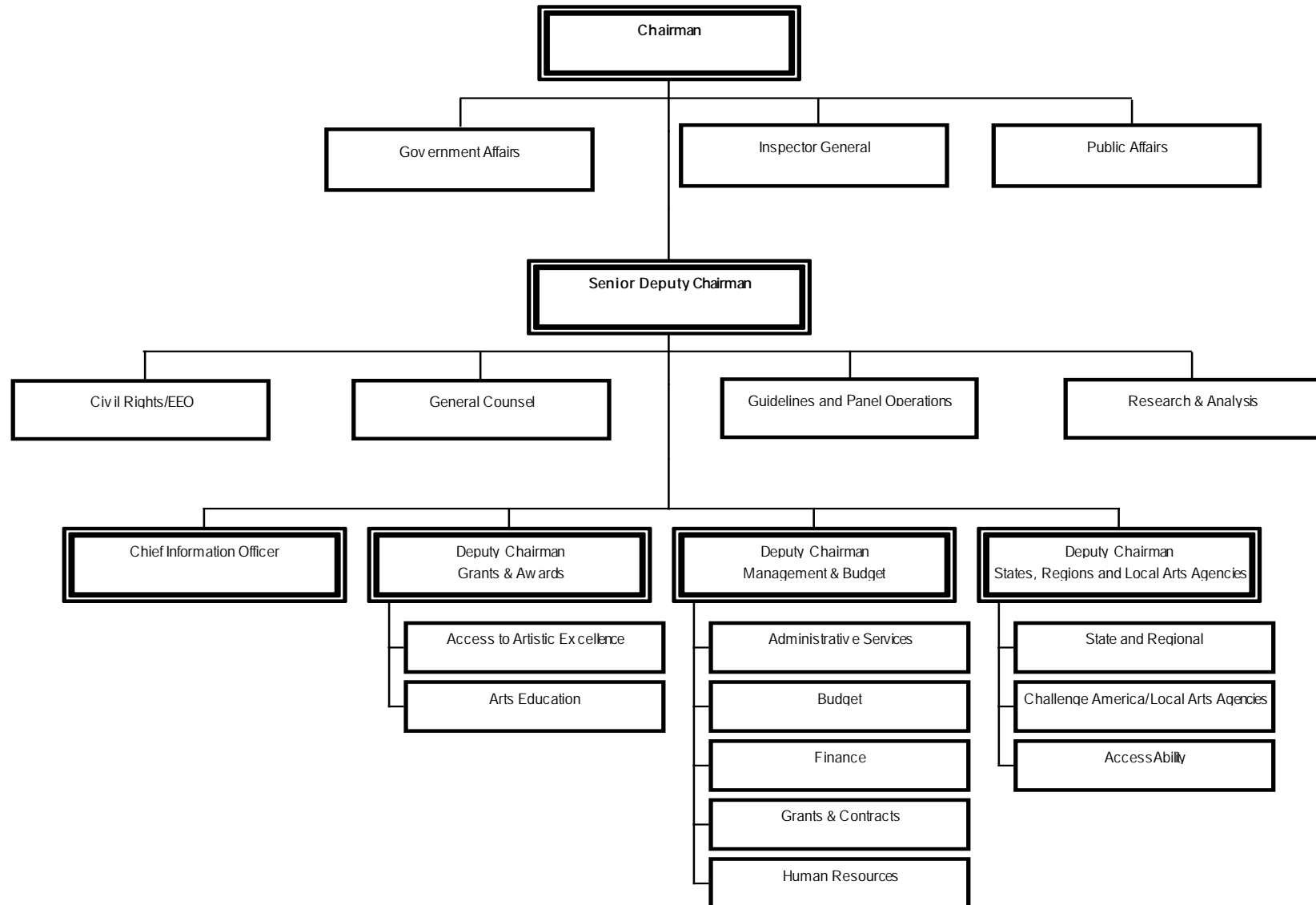
accountable for our resources. We also recognize the importance of using technology to enhance effectiveness and efficiency, as well as to ensure an adequate degree of internal control and compliance with applicable laws and regulations.

Future Effects of Existing Events and Conditions

In previous years, we reported on the challenges presented by our reliance on an outdated grants management system (GMS). During FY 2008 we took decisive action to address this. With the approval of OMB, we began the process of establishing a strategic partnership with the National Endowment for the Humanities, through which we will migrate our outdated GMS to their GMS – a modern, flexible grants management system developed and maintained by the NEH. We expect to see major improvements in our internal grants management and panel management processes as a result of this partnership; our grant applicants, grantees, and panelists will also find that doing business with the NEA will be easier and more flexible. Preliminary work is well underway, and we expect to begin using the NEH GMS by the end of 2010.

National Endowment for the Arts Organization Chart

Approved October 2009



NEA Strategic Plan FY 2006-2011
Summary of Programmatic Goals and Outcomes

<u>Goals</u>		
Access to Artistic Excellence	Learning in the Arts	Partnerships for the Arts
To encourage and support artistic excellence; preserve our cultural heritage; and provide access to the arts for all Americans.	To advance arts education for children and youth.	To develop and maintain partnerships that support excellence in the arts – both new and established – bring the arts to all Americans, and provide leadership in arts education.
<u>Outcomes *</u>		
1. Artists and arts organizations have opportunities to create, interpret, present, and perform artistic work.	1. Children and youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, State, or local arts education standards.	1. Activities supported through partnerships with state arts agencies and regional arts organizations make the arts and arts education widely available.
2. Audiences throughout the Nation have opportunities to experience a wide range of art forms and activities.	2. Teachers, artists, and others demonstrate knowledge and skills necessary to engage children and youth in arts learning, consistent with national, State, or local arts education standards.	2. Activities supported through partnerships with other public and private sector organizations make the arts and arts education widely available.
3. The arts contribute to the strengthening of communities.	3. National, State, and local entities demonstrate a commitment to arts learning for children and youth, consistent with national, State, or local arts education standards.	
4. Artistic works and cultural traditions are preserved.		
5. Organizations enhance their ability to realize their artistic and public service goals.		
* The outcomes refer to the intended results of Agency-funded grant projects and activities with arts organizations, arts service organizations, educational institutions, units of government, individuals, and other public and private sector organizations involved in arts activities.		

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Fiscal Year 2009 Performance and Accountability Report ~ Management Assurances ~

Overall Internal Control

The National Endowment for the Arts' management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The Arts Endowment conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Arts Endowment can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2009 was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

Internal Control over Financial Reporting

The National Endowment for the Arts conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with OMB Circulars A-123, *Management's Responsibility for Internal Control*, and A-136, *Financial Reporting Requirements*. Based on the results of this evaluation and that of our independent auditors, one material weakness and one significant deficiency were identified in the Agency's internal control over financial reporting as of September 30, 2009. The former was immediately resolved; the latter will be by the middle of FY 2010. (See Tables 1 and 2 on the following page). Other than these exceptions, the Agency's internal controls were operating effectively, and no other material weaknesses were found in the design or operation of the internal controls over financial reporting.

Table 1.**Summary of Financial Statement Audit**

Audit Opinion		Unqualified			
Restatement of FY 2008 Statement of Net Cost Data		Yes			
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Cost Accounting on Statement of Net Cost		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
<i>Total Material Weaknesses</i>	0	1	1	0	0

Table 2.**Summary of Management Assurances**

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Cost Accounting on Statement of Net Cost		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			
<i>Total Material Weaknesses</i>	0	1	1	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total Material Weaknesses</i>	0	0	0	0	0	0
Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance	Systems conform					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total non-conformances</i>	0	0	0	0	0	0
Compliance with Federal Financial Management Improvement Act (FFMIA)						
	Agency			Auditor		
Overall Substantial Compliance	Yes			Yes		
1. System Requirements				Yes		
2. Accounting Standards				Yes		
3. USSGL at Transaction Level				Yes		



Rocco Landesman

Chairman

November 16, 2009



Fiscal Year 2009
Performance and Accountability Report
~ Performance and Impact ~

In this section, we provide documentation of the impact of the Agency's programs, projects, initiatives, and activities. We present this information in five groupings.

Agency-Wide Program Accomplishments – Cumulative information on the impact of Agency activities, projects, and initiatives.

Achieving Agency Performance Goals – Information on the impact of Agency activities, projects, and initiatives by Agency goal, including specific project examples.

Leadership Initiatives – Information on the impact of the Agency's leadership initiatives, projects that cut across all Agency goals.

Research and Analysis – Summary information on Agency research activities intended to inform the American public, opinion makers, and the arts field.

GPRA Performance Reports – Quantitative reports for fiscal years 2006 – 2009.

Agency-Wide Program Accomplishments

The Agency's funding of programs, projects, and initiatives resulted in the development and delivery of broad services to the American public. Based on activity to date (excluding awards made through the American Recovery and Reinvestment Act of 2009) and information from Agency awardees for FY 2009, we can report and anticipate the following:

- **Approximately 2,400 awards were made in communities in all 50 States and six special jurisdictions.**
- **More than 100 million individuals will benefit from Agency programs (exclusive of television and radio broadcast audiences) including 10 million children and youth.**
- **A combined audience of hundreds of millions will benefit from Agency programs that support national and regional broadcast performances on radio and television, both single and recurring programs.**
- **100 percent of Congressional districts received at least one direct grant.**
- **Nearly 4,000 communities will participate in Agency-sponsored, discretionary projects – many benefiting from projects such as touring and outreach that take place in communities beyond that of the grant recipient.**
- **More than 2,000 communities will participate in projects funded by a combination of Federal funds and State Arts Agency and Regional Arts Organization funds.**
- **18,000 community organizations will partner with grantees on Arts Endowment-supported projects.**
- **Arts Endowment awards will generate \$600 million or more in matching support; in our direct grant-making categories alone, this translates into a ratio of matching to Federal funds of greater than 10:1, far exceeding the required match.**
- **Arts Endowment awards will help make possible nearly 40,000 concerts, readings, and performances; 5,000 exhibitions (including visual and media arts); and 8,000 artist residencies in schools and other locations.**
- **Internationally, 70 U.S. professional arts organizations and 350 artists will provide performances, exhibits, and other arts activities in 30 countries.**

Achieving Agency Performance Goals

The achievement of the Agency's programmatic accomplishments occurs through three programmatic goals: Access to Artistic Excellence, Learning in the Arts, and Partnerships through the Arts, as follows.

Access to Artistic Excellence

Through Access to Artistic Excellence, the Arts Endowment encourages and supports artistic excellence, preserves our cultural heritage, and provides access to the arts for all Americans. Nearly 83% of the Agency's FY 2009 Direct Endowment Grant funds were devoted to this effort, reflecting the high priority afforded to ensuring access to the arts for all Americans. The following table highlights accomplishments made possible with this funding (excluding funds awarded through the American Recovery and Reinvestment Act of 2009).

Access to Artistic Excellence
Selected Performance Results – FY 2006-2009

Fiscal Year	Total Non-Broadcast Audience	Children/ Youth	Concerts/ Readings/ Performances	Exhibitions	Artist Residencies
2006 Current	73 m	12 m	51 k	4.3 k	5.7 k
2007 Current	60 m	5.8 m	37 k	4.8 k	6.4 k
2008 Current	88 m	7.6 m	33.8 k	2.7 k	5.6 k
2009 Projected	95 m	8.8 m	35.7 k	4.4 k	6 k

[Numbers are rounded. k=thousand; m=million.]

The cumulative accomplishments reflected in this table result from the 2,000 or more direct grants and cooperative agreements awarded under this goal each year. Examples of specific programs, awards, and their direct impact are presented below according to: Grants for Arts Projects, Arts on Radio and Television, Save America's Treasures, International Activities, and innovative Leadership Initiatives.

Grants for Arts Projects: *Access to Artistic Excellence* examples from FY 2009:

The **Great Explorations Children's Museum in St. Petersburg, Florida** was awarded a \$10,000 consortium grant to support the First Impressions Community Outreach program, in collaboration with Very Special Arts of Florida. The project provides free arts programming for the general public as well as Pinellas County elementary school students. Hands-on arts education and juried art exhibitions are presented in the First Impressions Gallery; rotating exhibitions feature work by professional artists, artists with disabilities, and schoolchildren. An extension of the

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Performance and Impact

First Impressions Gallery, the Art Mobile, will visit approximately 80 elementary schools reaching more than 33,000 children. Artwork selection and artistic design of the Art Mobile interior and outer façade will be assisted by the First Impressions advisory board. Very Special Arts will ensure inclusive programming and accessible displays in both the gallery and the Art Mobile.

Pittsburgh Symphony Society, in Pennsylvania, was awarded a grant of \$35,000 to support the Composer of the Year program, an artist residency with composer John Adams. The orchestra, with guest violinist Leila Josefowicz, and Adams conducting, will perform the Pittsburgh premiere of his work for electric violin and orchestra, *The Dharma at Big Sur*. The programming also will include excerpts from the composer's operas *Nixon in China* and *Doctor Atomic*. Adams will host a reading session and symposium for young composers, as well as visit several local universities. The project is expected to serve approximately 10,000 audience members and 1,500 youth.

Milwaukee Repertory Theater, Inc., in Wisconsin, was awarded a grant of \$30,000 to support a production of Anton Chekhov's *The Cherry Orchard*. The project will feature the theater's resident acting company and will be directed by Ben Barnes, former artistic director of Ireland's Abbey Theatre. Set in 1904 on the edge of the Russian Revolution, Chekhov's final play is a bittersweet and haunting comedy about a rapidly changing world and way of life on the brink of destruction. The production will be accompanied by study guides for students and school groups, as well as "Rep in Depth" free audience discussions which will offer dramaturgical information on the show. The project is expected to reach an audience of more than 17,000.

In addition to activities noted above, through our **Arts on Radio and Television** funding area the Arts Endowment supports nationally broadcast performances of quality arts programs on radio and television that reach, through both single and recurring programs, a combined audience in the hundreds of millions annually. Here is one example of recent awards:

Minnesota Public Radio, Inc. (aka American Public Media), in St. Paul, was awarded a \$200,000 grant to support the production, acquisition, and national radio broadcast of classical music programming. In 2009-10, programs such as *Performance Today*, *SymphonyCast*, *Pipedreams*, and *St. Paul Sunday* (to be renamed), will reach as many as four million listeners each week. Hosted by Fred Child, *Performance Today* is a weekday, two-hour classical music series presenting performances from around the world, taped live and in concert and blended with commentary, interviews, profiles, and music news. It reaches as many as one million listeners each week on 246 public radio stations. *SymphonyCast*, a weekly two-hour program, brings audiences full performances by American and international orchestras and is carried by 120 stations. *Pipedreams*, hosted and produced by Michael Barone, is a weekly 90-minute program devoted to music for the organ. Now in its 25th season, it is the only radio series of its kind with significant national distribution (153 stations). *St. Paul Sunday* features musicians and composers who

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are brought into the recording studio to perform and discuss their works exclusively for the listening audience. During the 2009-10 season, American Public Media will hire a new host and rename the program. Previously hosted by conductor and composer Bill McGlaughlin, the show presents music ranging from the standard classical repertoire to jazz, and is distributed to 179 stations reaching 313,000 listeners each week. The project will provide more than 700 hours of classical music programming.

Save America's Treasures grants support preservation and/or conservation of nationally significant intellectual and cultural artifacts and historic structures and sites. Since the start of the program in 1999, the Arts Endowment has been responsible for the review of applications requesting funds for the conservation of nationally significant art works and collections. ***Save America's Treasures*** funds are provided to the Arts Endowment from the National Park Service and matched with at least an equal amount of non-Federal funds. The following example highlights the FY 2009 awards:

Miami – Dade County, FL/Vizcaya Museum and Gardens was awarded \$300,000 to support conservation of the Vizcaya Museum and Gardens Outdoor Sculpture Collection. A National Historic Landmark estate built between 1914 and 1917, Vizcaya is one of the most complete remaining examples from a period of architecture known as the American Renaissance. The outdoor sculpture collection, an integral part of the estate's historic importance, features nearly 300 statues, urns, and fountains. The pieces range from a second-century Roman altar to 20th century pieces commissioned for the site. ***Save America's Treasures*** funding will support conservation treatment on pieces damaged by the salt air; stabilization of pieces that have become compromised by the settling earth; and relocation of objects most in jeopardy of damage from storms.

The Arts Endowment supports **International Activities** to promote the presentation of American arts and artists at international venues and to provide short-term residencies of foreign artists in the United States. In addition, the Arts Endowment has been active in supporting literary exchange programs that provide the work of U.S. writers to foreign audiences and provide opportunities for U.S. readers to experience the work of foreign writers. The Chairman of the National Endowment for the Arts has served on the U.S. National Commission for the United Nations Educational, Scientific and Cultural Organization (UNESCO) and has served as an expert on American culture at UNESCO at the invitation of the U.S. Ambassador.

Examples of the Agency's international projects include:

- ***USArtists International***, in partnership with Mid Atlantic Arts Foundation, supports performances of American dance, theater, and music ensembles at international festivals abroad. The new addition of the theater category and expansion to festivals worldwide was made possible through generous support from the *Andrew W. Mellon Foundation*. In FY 2009, 846 American artists performed in 40 countries over six continents offering audiences abroad a

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dynamic and diverse representation of the non-profit cultural sector in the United States. These performances provide a balance to the presentations of U.S. popular culture that are widely accessible internationally. In addition, the international festival setting allows artists to interact with colleagues from many nations and is valuable for the creative and professional development of American artists.

- ***AFI Project:20/20***, in partnership with the National Endowment for the Humanities, the Institute of Museum and Library Services, the President’s Committee on the Arts and the Humanities, and the American Film Institute, is an initiative designed to enhance cultural exchange, understanding, and collaboration through the exhibition of films by American and foreign filmmakers at venues in the U.S. and abroad. From 2006-09, 32 filmmakers representing 15 countries have visited 18 countries and 18 U.S. cities. After the screening of U.S. filmmaker Doug Pray’s film *Big Rig* in Lithuania in 2008, Mohammed Naqvi, a Pakistani/Canadian filmmaker said, “I now more than ever see the importance of 20/20. It truly is a cultural exchange – and it truly does bring cultural misconceptions about each of us to the forefront and gives us an opportunity to address them.”

Learning in the Arts for Children and Youth

Through *Learning in the Arts*, the Agency supports projects that help children and youth acquire knowledge, skills, and understanding of the arts in school-based and community-based settings. The following table highlights accomplishments made possible through this funding (excluding funds awarded through the American Recovery and Reinvestment Act of 2009).

Learning in the Arts
Selected Performance Results – FY 2006-2009

Fiscal Year	Children/ Youth	Concerts/ Readings/ Performances	Artist Residencies
2006 Current	.4 m	2 k	3 k
2007 Current	.6 m	3 k	3 k
2008 Current	.7 m	5 k	3.1 k
2009 Projected	.6 m	5 k	2 k

[Numbers are rounded. k=thousand; m=million.]

The accomplishments listed in this table result from the more than 200 direct grants and cooperative agreements awarded under the Learning in the Arts goal each year. Examples of specific programs, grants, and their direct impact are presented below according to Grants for Arts Projects and innovative Leadership Initiatives.

Grants for Arts Projects: *Learning in the Arts* examples from FY 2009:

Shakespeare & Company, Inc., in Lenox, Massachusetts, was awarded a \$40,000 grant to support Shakespeare in Action, a theater arts residency program. The series of classroom and after-school sessions will focus on a language-based exploration of a Shakespearean play through master classes, rehearsals, text analysis, and student performances. During the nine-week program, students will work with a group of professionally trained artists to learn both the technical and dramatic aspects of theatrical production. Students will study aspects of the theater such as stage combat, Elizabethan dance, set design, and costuming. The program also will provide professional development opportunities for classroom teachers. The residency will culminate in a four-day performance festival at the company's theater. More than 500 students attending 10 underserved high schools in Massachusetts and New York are expected to participate.

The **Shreveport Regional Arts Council in Louisiana** was awarded a \$30,000 grant to support Arts in Education Residency: From Tragedy to Triumph, The Great Depression and New Deal in North Louisiana. The 11-week residency will engage middle school students studying Louisiana history to experience the creative process from its roots in research to conceptual development and the creation of a new art work. Through images, words, stories, dance, film, music and theatre, students will research and retell the stories of 105 North Louisiana Elders who witnessed the Great Depression/New Deal Era eighty years ago. Four nationally recognized artists will work with students to perform the new work in a variety of venues. The project has the potential to reach approximately 10,000 eighth-graders in 21 parishes.

The **Mosaic Youth Theater of Detroit** was awarded a grant of \$80,000 to support the Youth Ensemble, Intermediate Training Program, and educational outreach programs. Professional actors and teaching artists will provide students with intensive acting, vocal, and technical theater training leading to the creation and performance of an original musical. During a nine-month period, youth will develop their acting, music, and writing skills, followed by pre- and post-test assessment of their learning. Matinees and evening performances of original student productions will be held at the Detroit Institute of Arts and other Detroit venues. The Mosaic Singers will perform their annual *Magnificat at the Max* concert at the Max M. Fisher Center in Detroit. These performances will be followed by a touring show of short theater and music productions at approximately 15 universities nationwide. As many as 165 youth, ages 12 to 18, are expected to participate in this free program.

Partnerships for the Arts

Through *Partnerships for the Arts*, the Arts Endowment joins with a substantial network of public, private, and nonprofit agencies and organizations for the purpose of developing and maintaining partnerships that support excellence in the arts, both new and established; bring the arts to all Americans; and provide leadership in arts education.

Examples of State/Regional and Federal Partnership programs, grants, and impact are presented below; an expanded discussion of National Initiatives follows.

State/Regional Partnerships

- **Forty percent (40%) of the Agency’s grantmaking funds are awarded to the State Arts Agencies (SAAs) and their Regional Arts Organizations (RAOs) through Partnership Agreements.** In recent years, more than 2,000 communities have been served each year through grants made possible by these agreements.
- Partnership funds to State Arts Agencies and Regional Arts Organizations are used for grantmaking and special initiatives in areas such as arts education, reaching underserved communities, and discipline-based activities; and for staff and/or administrative support. Examples of recent activity carried out with NEA Partnership funds are:
 - The **Idaho Commission on the Arts** leverages multiple partnerships to provide arts and arts education programs and services to the people of Idaho. The Commission, VSA-Idaho, the Department of Education, and the Idaho Art Education Association have developed a series of professional development workshops for Idaho arts specialists that focus on effective inclusion of arts in the classroom, looking at best practices that provide better art experiences and learning for those with and without disabilities. The workshops address the practical foundations of differentiating instruction in ways that work for teachers and students.

Arts Education Project Grants support collaborations between arts organizations and social service agencies to address youth-at-risk through prevention and intervention strategies. As these projects have matured, they have successfully attracted additional outside funds from juvenile justice, community foundations, and the NEA.

To strengthen the relationship between the arts and tourism, the Commission established “Uniquely Idaho,” in partnership with the University of Idaho; the Idaho departments of Commerce, Transportation, Agriculture, and Parks and Recreation; the Idaho Rural Partnership; the Idaho State Historical Society; and USDA Rural Development.

The Commission’s “Leadership for Local Arts Councils” grant program was designed to address the demise of small rural local arts councils in the State, brought on by the burn-out of Board members and volunteers for lack of a staff. The program strengthens local arts council management by supporting paid staff positions and provides capacity-building and technical assistance in long-range planning.

More than 5,000 refugees have been settled in the Treasure Valley (Boise metro area) in recent years, including performers and traditional craft makers. The Commission worked with the Idaho Office of Refugees to encourage a network of support for newcomer artists that would merge the traditional arts with social services to better serve newcomers and the larger communities. The Commission implemented the Mosaico Latino Initiative to study the expressive culture of Idaho Latinos from different national origins through fieldwork across the State. Researchers interviewed Peruvians, Colombians, Cubans, Mexicans, and Mexican-Americans, recorded music, and photographed celebrations. The fieldwork was shared regionally, encouraging collaborations in Idaho and Oregon. The Commission also originated a public radio series titled “Art & Soul” in partnership with public radio stations KBSU Boise, KPBX Spokane, and KBYI Rexburg that features State- and nationally- recognized artists and performers. All of the interview segments are made available to Idaho schools and libraries.

- The **New England Foundation for the Arts (NEFA)** is a regional arts organization whose members are comprised of the State arts agencies for Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. NEFA’s programs encourage and support presenters and communities who are working to develop diverse audiences, as well as organizations working to serve urban, rural, and culturally-specific constituencies through arts programming.

NEFA has developed a wealth of programs that support access to the arts in the New England region. New England States Touring is a cooperative program with the New England State arts agencies that provides support to nonprofit presenters such as libraries, schools or arts organizations for artist performances, readings, and related community activities. NEFA's Expeditions Program funds cross-disciplinary region-wide touring projects in New England. The Presenter Travel Fund provides support to arts programmers or curatorial staff in New England so that they may investigate new or unfamiliar work outside of their home community.

In cooperation with Meet the Composer, Inc., NEFA offers grants to nonprofit organizations in New England to provide interaction between individual composers and audiences related to specific performances of the composer's work. In 2006, NEFA, in partnership with the Massachusetts Cultural Council and the other SAAs of New England, launched MatchBook.org, an online cultural marketplace designed to bring together New England’s performing artists and the people and organizations wishing to present them. This free Web site features an easy to search directory of artists, performance spaces, and presenting organizations, designed to ‘MATCH’ artists with presenters that ‘BOOK’ them to perform.

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For over 25 years, NEFA has been a leader in creative economy research, developing reports and tools that inform national discussion and make the case for the economic value of supporting the arts. In April 2008, NEFA announced the public launch of CultureCount, New England's Cultural Database, which is designed to bring validity and visibility to the role artists, cultural nonprofits, and creative industries play in driving New England's entire economy.

In 2005, the Ford Foundation selected NEFA to facilitate planning, identify needs, and design a new support system for New England's Native artists. NEFA partnered with the Maine Indian Basketmakers Alliance and conducted gatherings with Native American artists and leaders throughout New England. Ongoing work has built the program and has strengthened NEFA's capacity to serve this important underserved community.

Federal Partnerships

The *Coming Up Taller* awards program is a cooperative venture among the Arts Endowment, the Humanities Endowment, the Institute for Museum and Library Services, and the President's Committee on the Arts and the Humanities. The \$10,000 awards recognize and focus national attention on exemplary after-school programs fostering the creative and intellectual development of America's children and youth through education and practical experience in the arts or the humanities. Here is one example of the exemplary organizations that received *Coming Up Taller* awards from the Arts Endowment in FY 2009:

New Urban Arts, in Providence, Rhode Island, is an interdisciplinary community art studio and gallery for high school students and emerging artists. Founded in 1997, New Urban Arts cultivates mentoring relationships between artists and inner-city youth in free, year-round out-of-school programs. The Youth Mentorship Program, New Urban Arts' core program, prepares volunteer artists to mentor small groups of teens. Recognizing the importance of well-matched mentor/mentee relationships, the students, guided by the Program Director, select the 20 artists who serve as mentors in the studio. After selection and training, mentors are matched with four to eight students. Together, the Artist Mentors and students collaborate in the design and production of artworks and community projects. New Urban Arts also provides the opportunity for students to exhibit, perform, and publish throughout the year.

Central to the program's curriculum is the cultivation of student leadership. This takes place not only throughout the hiring of the Artist Mentors, but by allowing students to teach workshops and encouraging participation on the youth advisory council, the Studio Team Advisory Board. New Urban Arts partners with College Visions to offer college preparatory counseling to the participants, and provides academic tutoring through the program's Studio Study Buddies component. The program's success is evident in that over the past three years, 93% of New Urban Arts seniors have enrolled in four-year colleges.

Leadership Initiatives

Leadership initiatives provide an opportunity for the Arts Endowment to address special artistic or cultural needs – whether field- or geography-based. Many, as described earlier in this document, include substantial educational components. Highlights of current leadership initiatives follow.

NEA Arts Assessment Leadership Initiative

The *NEA Arts Assessment Leadership Initiative* will build on the lessons learned from two previous model programs, the *NEA Summer Schools in the Arts for Children and Youth* and *NEA Teacher Institutes*. In both cases, we discovered that educators need more opportunities to learn how to assess both their students and the arts programs in which they participate. The *Arts Assessment Leadership Initiative* will work to assist arts organizations, classroom teachers, superintendents and principals to develop measurements to guide student learning. In 2010, a report with recommendations for enhancing the state of student assessment in arts learning will be released.

Arts Education Partnership

The *Arts Education Partnership*, formed in 1995 by the Arts Endowment, the U.S. Department of Education, the National Assembly of State Arts Agencies, and the Council of Chief State School Officers, is a private, nonprofit coalition of more than 140 national organizations engaged in identifying policies and practical steps for educators to achieve educational excellence by incorporating the arts into teaching and learning. Partnership organizations have led the national movement to establish education standards that include the arts, and have conducted and published groundbreaking research on the impact of learning in the arts on student achievement.

NEA Arts Journalism Institutes

In response to the declining quantity and quality of arts criticism in the country, the *NEA Arts Journalism Institutes* were established to improve arts criticism and to gain broader media coverage for classical music, opera, theater, musical theater, and dance as they compete for attention with the commercial entertainment industry. The Institutes provide in-depth instruction in the arts for print and broadcast journalists working outside the country's major media markets. The Institutes are convened at Columbia University in New York City, the University of Southern California in Los Angeles, and the American Dance Festival in partnership with Duke University in Durham, North Carolina. Each Institute employs a competitive application process to select 11-25 journalists. To date, 18 Institutes have engaged more than 300 journalists from more than 250 communities in all 50 States and the District of Columbia.

In addition, the NEA recently convened an *International Arts Journalism Institute* in partnership with the U.S. Department of State. The Institute, at American University in Washington, DC, focused on American visual art of the last 150 years. Half of the

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participants were American journalists who cover the visual arts; the other half were from other countries.

Finally, the NEA is sponsoring a National Arts Journalism Summit at the University of Southern California in Los Angeles this fall. The two-day summit will focus on innovative models for reinventing and disseminating arts journalism, and is co-sponsored by the Annenberg School of Communication.

NEA Education Leaders Institutes

NEA Education Leaders Institutes bring together – often for the first time – local school superintendents, principals, and teachers, with key State and national education and arts leaders for focused planning on how to provide sequential, standards-based curricula and assessments in K-12 arts education. During 2008-2010, six institutes are to be conducted, bringing together 144 leaders from 29 States representing all parts of the country.

Mayors' Institute on City Design, Governors' Institute on Community Design, and Your Town: Citizens' Institute on Rural Design

The Arts Endowment's three Design Leadership Initiatives leverage the Endowment's funding and leadership to accomplish broad goals and reach decision makers at every level of American communities. Although each initiative was developed at a different time, the three design programs work comprehensively across all geographic scales to protect and enhance the American built and natural environment and strengthen American communities. Through these programs, the Arts Endowment is improving the livability of communities throughout the United States. Each year, approximately 60 communities – rural, urban, and regional – and 600 community leaders, designers, and planners participate in these workshops, ultimately benefiting the millions of residents in their respective communities.

The Mayors' Institute on City Design

The *Mayors' Institute* alone has graduated more than 800 mayors since its first session in 1986. The program has been recognized for its contributions with a Presidential Award for Design Excellence, a Progressive Architecture Award from Architecture magazine, and an Institute Honor Award from the American Institute of Architects. During the past year, *Mayors' Institute* sessions have been held in Portland, Oregon; Washington, DC; and Meridian, Mississippi for small to medium American cities. For larger American cities, *Mayors' Institute* sessions have been held in Philadelphia, Pennsylvania; Chicago, Illinois; and Charleston, South Carolina. Additionally, a technical assistance program for alumni mayors was launched in the summer of 2008, with sessions for mayors in Santa Rosa, California, and Lincoln, Nebraska. Additional sessions have since been held in Cincinnati, Ohio; Moss Point, Mississippi; and Tulsa, Oklahoma.

Physical design is a fundamental tool that mayors can wield to positively affect the social well-being and economic vitality of their cities. The structure of the *Mayors' Institute* has remained the same since its inception: eight mayors, eight

designers, and eight problems. Each mayor brings his or her city's most critical urban design issue to discuss. And, following a case-study method, general principles evolve out of specific problems. Mayors, architects, planners, landscape architects, and development experts, discuss ideas and engage in an animated debate. These dynamic sessions often advance creative solutions while imparting a healthy understanding of the value of design.

The Governors' Institute on Community Design

The *Governors' Institute* was created to assist top State leaders as they direct growth and development in their States at a regional level. As metropolitan areas have grown to become the focus of both the economy and population, governors have had to grapple with issues related to sprawl, transportation, energy use, air quality, housing, watershed protection, park systems and economic development that will either ensure or compromise future growth. And the physical design of American communities impacts all these issues. The Arts Endowment modeled the governors program on its *Mayors' Institute* initiative; when initiating the *Governors' Institute*, NEA staff realized that mayors' influence only extends so far, and if Americans are living life at the regional scale, than a program that assists with regional planning would be of great assistance to communities around the country.

Since the *Governors' Institute* was founded in 2005, sessions have been held for Rhode Island Governor Donald Carcieri, Virginia Governor Tim Kaine, Arizona Governor Janet Napolitano, Delaware Governor Ruth Ann Minner, Maryland Governor Martin O'Malley, Wyoming Governor David Freudenthal, New Mexico Governor Bill Richardson, Iowa Governor Chet Culver, and Montana Governor Brian Schweitzer.

Your Town: Citizens' Institute on Rural Design

Your Town provides rural community members and leaders access to design professionals with expertise in heritage tourism, preservation, and cultural landscapes. The program introduces design strategies, techniques, and best practices based on the specific needs of the communities, with particular focus on the benefits of economic revitalization, directed growth, preservation, and cultural tourism.

Approximately four *Your Town* workshop sessions are held each year. During the workshops, approximately 40 community participants engage over a two-and-a-half-day period with as many as 10 guest speakers from the design and related fields. Frequently, these small towns and rural areas have no community planning or design review process and few if any design professionals in the community. By providing this architecture, landscape, and economic revitalization expertise and instruction, *Your Town* empowers local leaders and decision-makers to use design to improve their communities.

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The *Your Town* program addresses a range of critical problems that rural communities face. In some cases, the main concerns are heavy out-migration and loss of employment opportunities; in others, rapid growth from suburban sprawl, location of new facilities, or influx of retirees. These problems affect the vitality of the community, its design, and its sense of place. *Your Town* was awarded the 1996 National Honor Award for Design Communication by the American Society of Landscape Architects. This is the highest award given by ASLA, in recognition of exceptional contributions to the profession and society. *Your Town* also received the American Planning Association Public Education Award in 1997.

During 2009, *Your Town* has worked with communities in Hamilton, Montana; Platte County, Wyoming; Fellsmere, Florida; Wahiawa, Hawaii; and the Shinnecock Indian Nation in Southampton, New York.

NEA Jazz Masters

The National Endowment for the Arts celebrates jazz as America's truly indigenous musical art form through its *NEA Jazz Masters* initiative. Since its inception in 1982, 114 awards have been made to honor musicians and advocates who have dedicated their lives to the music. The program expanded in 2005 to raise awareness of America's rich jazz heritage and encourage its nurturing and future growth through added nationwide educational and performance components, targeting audiences of all ages and backgrounds. Today, the *NEA Jazz Masters* initiative consists of a number of components including:

- The *NEA Jazz Masters* Awards Ceremony & Concert.
- *NEA Jazz Masters LIVE* in concerts throughout the United States.
- The *NEA Jazz in the Schools* curriculum, available free-of-charge at www.neajazzintheschools.org. In addition, 20,000 educational toolkits have been made available to teachers without Internet access, reaching more than 8 million students nationwide to date.
- The *Jazz Oral Histories Project*, with interviews available to scholars and the public through the Archives Center at the National Museum of American History. Selected interview highlights also are accessible for online viewing at www.smithsonianjazz.org/oral_histories/joh_start.asp.

NEA National Heritage Fellowships

As one of three discipline-specific lifetime honors awarded by the Arts Endowment, the *NEA National Heritage Fellowships* were established to recognize lifetime achievement, artistic excellence, and contributions to our Nation's folk and traditional arts heritage. The Arts Endowment annually awards these one-time-only Fellowships to master folk

and traditional artists. A total of 360 Fellowships have been awarded since 1982 to traditional artists residing in 49 States (all except Delaware), the District of Columbia, Guam, the U.S. Virgin Islands, Puerto Rico, and the Northern Mariana Islands.

Operation Homecoming: Writing the Wartime Experience

In 2004, *Operation Homecoming* was created by the Arts Endowment to help U.S. troops and their families write about their wartime experiences. The best submissions were published by Random House in a literary anthology, *Operation Homecoming: Iraq, Afghanistan, and the Home Front in the Words of U.S. Troops and Their Families*, in September 2006. The anthology, edited by Andrew Carroll, was expanded and published by the University of Chicago Press in 2007. Through this program, the Arts Endowment engaged some of America's most distinguished writers to conduct workshops at military installations, and provided educational resources – including a *Guide for Writers*, audio CD, and online materials – to help the troops and their families share their stories. In 2008, and continuing into 2009, the program expanded to include veterans as well as active duty troops, with writing workshops being conducted at Department of Veterans Affairs (VA) medical centers, military hospitals, and Department of Defense medical facilities in communities around the country. Accomplishments of *Operation Homecoming* include:

- Provided more than 60 writing workshops with distinguished authors – and related activities – for more than 6,000 people at 33 military installations in the U.S. and overseas (Asia, Europe, and the Middle East, including Afghanistan and on the USS Carl Vinson aircraft carrier in the Persian Gulf). Another 25,000 individuals have utilized our online educational resources or received copies of our print materials and *Operation Homecoming* audio CD.
- Collected nearly 2,000 submissions, comprising approximately 12,000 pages of writing, for the *Operation Homecoming* anthology..
- Held 37 book readings, symposia, and conference discussions of the award-winning *Operation Homecoming* anthology at cultural centers, libraries, and military installations across the country from September 2006 to summer 2008. These events included first-person accounts and readings by troops and writers.
- Distributing *Muse of Fire*, an educational DVD featuring accomplished writers and military personnel-turned-writers reading from their work and discussing the craft of writing. The film, given free to military base libraries and educational centers, and veterans' facilities and hospitals, premiered at the National Archives in Washington, DC, on March 14, 2007.

In 2008, an independent documentary, *Operation Homecoming*, directed by Richard Robbins, received two Emmy Awards and was a finalist for the Academy Award for Best

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Documentary. The film was created in coordination with the NEA and based on the anthology.

In July 2009, a memoir from the *Operation Homecoming* anthology, “Taking Chance,” was nominated for 10 Emmy Awards for its HBO film version, including Outstanding Made for Television Movie, and a nomination for Outstanding Writing for a Miniseries, Movie or a Dramatic Special (Lt. Col. Michael R. Strobl, USMC (Ret.) and Ross Katz).

The Arts Endowment secured more than \$1.75 million in private sector support for the *Operation Homecoming* initiative from FY 2004-2008.

Poetry Out Loud: National Recitation Contest

By encouraging high school students to memorize and perform great poems, *Poetry Out Loud* helps students master public speaking skills, build self-confidence, and learn about their literary heritage. Created by the NEA and the Poetry Foundation, *Poetry Out Loud: National Recitation Contest* is administered in partnership with State arts agencies in all 50 States, as well as the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

Poetry Out Loud, begun as a pilot in 2005, most recently served nearly 300,000 students during the 2008-2009 school year and included the participation of the U.S. Virgin Islands and Puerto Rico. Using curriculum and an anthology developed as part of *Poetry Out Loud*, teachers introduce students to poetry and recitation before holding a classroom poetry recitation competition. Following a pyramid structure, classroom champions move on to school competitions, regional and State competitions, and ultimately to the National Finals, which are held each spring. The Arts Endowment’s partner, the Poetry Foundation, produces substantive educational materials for teachers participating in *Poetry Out Loud* and provides additional financial support for the National Finals, with a total contribution of approximately \$500,000.

For 2009-10, the fifth national year of *Poetry Out Loud*, State arts agencies are continuing to expand school participation, with as many as 2,000 schools and 350,000 students nationwide likely to participate. Fifty-three State and territory champions will gather in Washington, DC, to compete at the National Finals on April 26 and 27, 2010.

Shakespeare for a New Generation

Shakespeare for a New Generation represents the current phase of the *Shakespeare in American Communities* initiative, launched in New London, Connecticut in September 2003. By the end of the current round of activities in May 2010, it is anticipated that the program will have:

- Provided almost 6,500 performances of professional Shakespeare productions to more than 2,500 communities in all 50 States and the District of Columbia.

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- Entertained more than 1,850,000 community audience members (including students as mentioned below).
- Provided free performances and educational activities for approximately 1,500,000 students in 3,900 middle and high schools.
- Reached more than 26 million students through the free distribution of 75,000 Shakespeare multi-media toolkits used by teachers in more than 31,000 middle and high schools, of which nearly 40% are in rural communities.

During the 2009-10 school year, \$125,000 in funding received from the Department of Justice, Office of Juvenile Justice and Delinquency Prevention, will support projects for at-risk youth, carried out by six of the thirty-seven participating theater companies.¹

¹ An additional \$125,000 is anticipated for the next school year.

Research and Analysis

The NEA's Office of Research & Analysis (ORA) aims to provide statistically reliable information that allows arts administrators, policy-makers, educators, civic leaders, artists, journalists, and the general public to participate in an evidence-based dialogue concerning the role and vitality of arts and culture in the United States.

Survey of Public Participation in the Arts: Overview

At the center of the office's data collection and reporting efforts is the Survey of Public Participation in the Arts (SPPA), the Nation's largest behavioral survey of American adult participation in arts activities and arts learning opportunities. In May 2008, the U.S. Census Bureau conducted the ORA-designed survey of more than 17,000 individuals, with a response rate of 82 percent – about 12 points higher than in 2002, the previous year of the survey.

The primary importance of the SPPA is its measurement of adult participation levels for all the arts disciplines supported by the Arts Endowment, and also for a variety of other cultural and leisure activities. Because the "core" survey questions have remained consistent since 1982, and because the survey sample reflects the total U.S. adult population in all its diversity, the results offer a reliable perspective on the nature and extent of America's engagement with the arts.

The SPPA results are useful not only for arts policy and planning purposes, but also to enable arts administrators to regularly assess public demand for arts participation and gain insights for building new audiences. The survey results have also proved critical to the arts research community and to scholars in related fields such as sociology and cultural economics.

NEA Research Reports on Arts Participation

Barely a year after the 2008 SPPA was conducted, ORA has published three research brochures featuring the survey results: 1) *All America's a Stage: Growth and Challenges in Nonprofit Theater*; 2) *Reading on the Rise: A New Chapter in American Literacy*; and 3) *Arts Participation 2008: Highlights from a National Survey*. All three reports were distributed to key decision-makers in arts, literary, and cultural organizations, and each study drew coverage from national news media.

The office's most recent report, *Arts Participation 2008: Highlights from a National Survey*, articulated some of the challenges now facing performing arts organizations, art museums, and other cultural venues as they seek to attract patrons for events and activities. The survey showed that 35 percent of the U.S. adult population – or about 78 million Americans – attended an art museum or gallery or a live performing arts event in the previous year, compared with roughly 40 percent in previous survey years (1982, 1992, and 2002). Of all the types of arts participation for which trend data are available,

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only literary reading and photography or film-making saw significant growth in adult participation rates.

Following a series of teleconferences with arts researchers in 2008, ORA decided to commission five independent studies alongside the full summary report of the survey results. Those study topics are:

- Arts Learning examines the potential impact on arts participation of: 1) current or prior instruction and training in the arts; 2) opportunities to experience the arts at early ages; and 3) overall educational attainment.
- Arts Participation, Media, and Technology considers the role played by media and technology in arts participation and art-making.
- Age and Arts Participation analyzes differences in arts participation patterns across age groups and generational cohorts.
- Arts Participation, Race, and Ethnicity considers race and ethnicity as factors in degree and variety of arts participation.
- Arts Creation and Performance studies the link between arts creation and performance and other types of arts participation.

ORA is convening arts organizations and researchers alike to discuss the nature and implications of the declines. Similarly, NEA researchers will work with investigators conducting the follow-up studies so that, where applicable, any new findings yield practical lessons. ORA also will produce Research Notes, or white papers, on survey topics related to geographical analyses of arts participation, and measuring the links between arts participation and community engagement. At a minimum, the planned studies will enrich arts organizations' understanding of the public they serve. The NEA's follow-up reports will allow arts administrators and policy-makers to identify other pressure points for arresting long-term declines in arts participation.

Public Research Tools and a Revised Survey

A parallel effort has been underway to release the survey's raw data files and to create data resources that will help other researchers – whether government, academic, nonprofit, or commercial – to pursue research questions of their own. In an unprecedented step, ORA has posted these resources on the Arts Endowment's Web site, with a link to the Cultural Policy & the Arts National Data Archive at Princeton University. Those resources, which were shared in a June 2009 teleconference with dozens of researchers, include:

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- [Arts participation trend tables](#) (1982-2008) reporting data for individual arts activities by demographic group, and tables showing adults' self-reported [preferences](#) for various reading and listening materials.
- The 2008 survey instrument.
- A [data user's guide](#), with information on the survey design and the procedures for properly using the raw data file (e.g., choosing weights, performing multi-variable analyses from different modules, computing standard errors, and comparing results with those of prior surveys).
- The raw data file.

Finally, ORA soon will begin preparations for its 2012 version of the SPPA, following confirmatory talks with the U.S. Census Bureau. NEA researchers intend to maintain the core survey questions while revising or adding items related to audience preferences – a move that could shed light for the first time on audience motivations for attending arts events or, importantly, for not attending them. This missing piece of data potentially would increase the relevance of future survey results.

National Study of Outdoor Arts Festivals

In consultation with the Association of Performing Arts Presenters and a 12-member advisory group, the NEA is conducting another survey which, while it does not bear directly on the SPPA, arises from observations made in earlier surveys about arts participation. ORA is working with a study contractor to survey outdoor arts festivals nationwide, to aggregate data on the number, types, financing, staffing, regional distribution, artist employment patterns, and other characteristics of these unique arts venues. There is no single, comprehensive research publication or database that describes the range and/or impact of arts festivals in this country. The NEA study will establish a baseline for future data collection, while identifying organizational and programming characteristics that are associated with specific arts disciplines or categories of communities and participants. The study will enable arts administrators and civic leaders to adopt a more strategic approach toward planning arts festivals and related activities in their communities.

The 2008 SPPA results showed that 21 percent of all adults attended a performing arts festival at least once in the previous 12 months. The rate is higher than that for most types of arts participation, and it is also associated with more diverse audience groups than many other art events. Although the arts festival survey will collect data mainly about organizational traits regarding festivals, these data may assume greater importance for arts programmers in light of diminishing rates of participation for more traditional arts events. ORA and its contractor have compiled thousands of names of contacts at festivals to be targeted with the survey, and case studies of seven arts festivals are in progress, with a full report to be submitted in 2010.

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Strengthening Data on Artist Workforce Issues

In late 2009, ORA will convene a Cultural Workforce Forum at the NEA headquarters in Washington, bringing together some of the Nation's top researchers of artist demographics and labor issues. The group will share methodologies and research findings, and discuss new directions for study – particularly since 2010 marks the first year in which at least five years of artist occupational data from the U.S. Census Bureau's American Community Survey will have accumulated. Investigation of this rich data source could augment NEA researchers' decades of research into artist labor statistics, notably through studies such as *Artists in the Workforce: 1990 to 2005* (2008), *Women Artists, 1990-2005* (2008), and *Artists in a Year of Recession: Impact of Jobs in 2008* (2009). The latter research publication used published and unpublished data from the U.S. Department of Labor to make several points about artist unemployment, including:

- Unemployment rates for artists rose more rapidly during 2008 than for U.S. workers as a whole;
- Unemployment rose for most types of artist occupations – including writers, visual artists, and performing artists; and
- The job market for artists is unlikely to improve until long after the U.S. economy starts to recover.

Apart from unemployment, many Americans are leaving the artist job market altogether, rather than continue to pursue work as artists. (From the fourth quarter of 2007 to the fourth quarter of 2008 – the period of the study – the artist workforce decreased by 74,000 workers, even as the total U.S. workforce grew by 800,000 people.)

These data were a featured discussion topic in March 2009 at a House Committee on Education and Labor hearing on artist workforce issues related to the recession. The NEA plans to update these data in FY 2010.

Arts Education Research: Partnerships and Post-Analyses

As the NEA looks to cultivate greater public access to opportunities for arts experiences, arts education remains the single most critical research area. Previous NEA research has shown that arts education is among the most significant predictors of lifelong patterns of arts participation. Arts education research is also admirably poised to influence policy decisions.

In FY 2010, the NEA Office of Research & Analysis will continue to participate in a working group of the Arts Education Partnership (AEP) to create a research and policy agenda for the coming years. The NEA research director also participated in an August 2009 working group meeting with AEP to refine metrics for collecting data on the changing status of arts education in the Nation's public schools.

In FY 2010, ORA will conduct secondary analyses on National Assessment of Educational Progress (NAEP) data from the U.S. Department of Education. The NAEP

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data pertain to the Nation's 2008 arts education assessment, the results of which were released in June 2009, coincidentally on the same day as the release of the NEA's *Arts Participation 2008: Highlights from a National Survey*. National media coverage of the NAEP results tended to reference the NEA arts participation survey, thus underscoring arts learning as an essential factor in arts event attendance and arts creation and performance.

The NEA research office will further examine the relationship between out-of-school factors and student assessment scores in arts education. Those results likely will be released as Research Notes in the next year.

Performance Reports

As required by the Government Performance and Results Act of 1993 (GPRA) and subsequent guidance from OMB on the preparation of performance budgets, the Arts Endowment is submitting performance data for Fiscal Years 2006 through 2009. The data relate to performance goals and indicators contained in applicable Performance Plans for the same period. The tables that follow this narrative compare actual performance as of September 30, 2009 with prior estimates. It is important to consider the following as one examines the tables.

First, we have determined that approximately 24 months must pass after the close of a fiscal year before sufficient information is received to fully assess the accomplishments of that year. The table below shows the trend of final report submissions over the most recent four-year period.

Fiscal Year	# of Months Since Close of Year	# of Months Above or Below 24 Month Benchmark	% of Final Reports Received as of September 30, 2009
2006	36	12	97
2007	24	0	93
2008	12	-12	76
2009	0	-24	13

Second, we rely upon information provided by our applicants and grantees when making projections. Performance projections rely upon information provided by our grantees – reflected in application forms, revised project/budget forms, and final reports. By the time we consider the Performance Report for a given fiscal year to be “final,” all the performance data come from grantee final reports.

Third, eligible applicants to the Arts Endowment have full discretion in choosing the funding area from which to seek support, and in determining the nature of their projects. From year to year, applicant interests may change from one area to another or from one type of project to another, thus adding to the challenge of making reliable estimates.

Beginning on page 40 is a set of tables with the most current performance data for Fiscal Years 2006 through 2009.

**National Endowment for the Arts
FY 2006 PERFORMANCE REPORT
September 2009**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2006 Final Projections with FY 2006 PAR (Performance as of 9-29-06; 9% of Final Reports Received)</u>			<u>FY 2006 Current Performance with FY 2009 PAR (Performance as of 9-30-09; 97% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		# of Awards	\$	Target Levels	# of Awards	\$	Current Levels	# of Awards	\$	Extent of Activity
1. ACCESS TO ARTISTIC EXCELLENCE: Foster and preserve excellence in the arts and provide access to the arts for all Americans.		2,020	\$ 50,157		2,020	\$ 50,157		0	\$ -	
a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work.	<i>The number of projects whose primary purpose is to create or present art.</i>	1,000-1,250			1,150			on target		
	<i>The number of artists participating in projects whose primary purpose is to create art.</i>	150,000-200,000			95,064			below		
b. Audiences throughout the Nation have opportunities to experience a wide range of art forms & activities.	<i>The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).</i>	30-35 m			25 m			below		
c. The arts contribute to the strengthening of communities.	<i>The number of projects whose primary purpose is to strengthen communities through access to the arts.</i>	175-225			190			on target		
d. Artistic works & cultural traditions are preserved.	<i>The number of projects whose primary purpose is the preservation of artistic works & cultural traditions.</i>	200-225			210			on target		
e. Organizations enhance their ability to achieve their artistic & public service goals.	<i>The number of projects whose primary purpose is to assist organizations to enhance their abilities to achieve their artistic & public service goals.</i>	225-275			252			on target		
2. LEARNING IN THE ARTS: Advance arts education for children and youth.		211	\$ 10,563		211	\$ 10,563		0	\$ -	
a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.</i>	200-225			210			on target		
	<i>The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.</i>	.25-.5 m			.4 m			on target		
b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.</i>	0			2			above		
c. National, State, and local entities demonstrate a commitment to arts learning for children & youth, consistent with national, state, or local arts education standards.	<i>The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.</i>	1			5			above		

**National Endowment for the Arts
FY 2006 PERFORMANCE REPORT
September 2009**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2006 Final Projections with FY 2006 PAR (Performance as of 9-29-06; 9% of Final Reports Received)</u>			<u>FY 2006 Current Performance with FY 2009 PAR (Performance as of 9-30-09; 97% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
3. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts.										
<i>State Partnerships</i>										
State & Regional			\$ 23,357			\$ 23,357			\$ -	
Underserved Set-Aside			\$ 6,282			\$ 6,282			\$ -	
Challenge America			\$ 7,063			\$ 7,063			\$ -	
National Initiatives			\$ 4,730			\$ 4,730			\$ -	
Subtotal State Partnerships			\$ 41,432			\$ 41,432			\$ -	
<i>Other Public & Private Partnerships</i>			\$ 280			\$ 280			\$ -	
Total Partnerships for the Arts		84	\$ 41,712		84	\$ 41,712		0	\$ -	
a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly.	<i>The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment.</i>	1,900-2,250			1,800-2,000			below		
b. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment.	<i>The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.</i>	5-15			10			on target		
GRAND TOTAL GRANTMAKING FUNDS (Obligations, excluding Interagency and Gift funds.)		2,315	\$ 102,432		2,315	\$ 102,432		0	\$ -	
Cross-Cutting Indicators	<i>The amount of matching funds reported by Arts Endowment grantees.</i>	575-650 m			505 m			below		
	<i>The number of distinct communities directly benefiting from Arts Endowment-funded projects.</i>	3,750-4,000						below		

3,700

**National Endowment for the Arts
FY 2007 PERFORMANCE REPORT
September 2009**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2007 Final Projections with FY 2007 PAR (Performance as of 9-30-07; 14% of Final Reports Received)</u>			<u>FY 2007 Current Performance with FY 2009 PAR (Performance as of 9-30-09; 93% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
1. ACCESS TO ARTISTIC EXCELLENCE: Foster and preserve excellence in the arts and provide access to the arts for all Americans.			\$ 49,659		1,902	\$ 49,659		0	\$ -	
a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work.	<i>The number of projects whose primary purpose is to create or present art.</i>	1,902		1,000-1,250						on target
	<i>The number of artists participating in projects whose primary purpose is to create art.</i>			75,000-100,000		1,035				on target
b. Audiences throughout the Nation have opportunities to experience a wide range of art forms & activities.	<i>The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).</i>			30-35 m		84,427	23 m			below
c. The arts contribute to the strengthening of communities.	<i>The number of projects whose primary purpose is to strengthen communities through access to the arts.</i>			175-225		178				on target
d. Artistic works & cultural traditions are preserved.	<i>The number of projects whose primary purpose is the preservation of artistic works & cultural traditions.</i>			150-200		206				above
e. Organizations enhance their ability to achieve their artistic & public service goals.	<i>The number of projects whose primary purpose is to assist organizations to enhance their abilities to achieve their artistic & public service goals.</i>			225-275		271				on target
2. LEARNING IN THE ARTS: Advance arts education for children and youth.		208	\$ 10,251		208	\$ 10,251		0	\$ -	
a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.</i>			200-225		204				on target
	<i>The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.</i>			.25-.5 m		.6 m				above
b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.</i>			3		1				below
c. National, State, and local entities demonstrate a commitment to arts learning for children & youth, consistent with national, state, or local arts education standards.	<i>The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.</i>			6		3				below

**National Endowment for the Arts
FY 2007 PERFORMANCE REPORT
September 2009**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2007 Final Projections with FY 2007 PAR (Performance as of 9-30-07; 14% of Final Reports Received)</u>			<u>FY 2007 Current Performance with FY 2009 PAR (Performance as of 9-30-09; 93% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
3. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts.										
<i>State Partnerships</i>										
State & Regional			\$ 23,162			\$ 23,162			\$ -	
Underserved Set-Aside			\$ 6,227			\$ 6,227			\$ -	
Challenge America			\$ 6,998			\$ 6,998			\$ -	
National Initiatives			\$ 3,941			\$ 3,941			\$ -	
Subtotal State Partnerships			\$ 40,328			\$ 40,328			\$ -	
<i>Other Public & Private Partnerships</i>			\$ 474			\$ 474			\$ -	
Total Partnerships for the Arts		83	\$ 40,802		83	\$ 40,802		0	\$ -	
a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly.	<i>The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment.</i>	1,800-2,000			1,800-2,000			on target		
b. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment.	<i>The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.</i>	10-15			15			on target		
GRAND TOTAL GRANTMAKING FUNDS (Obligations, excluding Interagency and Gift funds.)		2,193	\$ 100,712		2,193	\$ 100,712		0	\$ -	
Cross-Cutting Indicators	<i>The amount of matching funds reported by Arts Endowment grantees.</i>	500-550 m			522 m			on target		
	<i>The number of distinct communities directly benefiting from Arts Endowment-funded projects.</i>	3,750-4,000						below		

2,950

**National Endowment for the Arts
FY 2008 PERFORMANCE REPORT
September 2009**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2008 Final Projections with FY 2008 PAR (Performance as of 9-30-08; 14% of Final Reports Received)</u>			<u>FY 2008 Current Performance with FY 2009 PAR (Performance as of 9-30-09; 76% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
1. ACCESS TO ARTISTIC EXCELLENCE: Foster and preserve excellence in the arts and provide access to the arts for all Americans.		1,941	\$ 60,840		1,941	\$ 60,840		0	\$ -	
a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work.	<i>The number of projects whose primary purpose is to create or present art.</i>	1,088						on target		
	<i>The number of artists participating in projects whose primary purpose is to create art.</i>	114,000			1,086			above		
b. Audiences throughout the Nation have opportunities to experience a wide range of art forms & activities.	<i>The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).</i>	32 m			130,000 40 m			above		
c. The arts contribute to the strengthening of communities.	<i>The number of projects whose primary purpose is to strengthen communities through access to the arts.</i>	185			182			below		
d. Artistic works & cultural traditions are preserved.	<i>The number of projects whose primary purpose is the preservation of artistic works & cultural traditions.</i>	186			185			below		
e. Organizations enhance their ability to achieve their artistic & public service goals.	<i>The number of projects whose primary purpose is to assist organizations to enhance their abilities to achieve their artistic & public service goals.</i>	268			267			below		
2. LEARNING IN THE ARTS: Advance arts education for children and youth.		222	\$ 12,808		222	\$ 12,808		0	\$ -	
a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.</i>	198			201			above		
	<i>The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.</i>	.6 m			.7 m			above		
b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning, consistent with national, state, or local arts education standards.	<i>The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.</i>	19			19			on target		
c. National, State, and local entities demonstrate a commitment to arts learning for children & youth, consistent with national, state, or local arts education standards.	<i>The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.</i>	5			6			above		

**National Endowment for the Arts
FY 2008 PERFORMANCE REPORT
September 2009**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2008 Final Projections with FY 2008 PAR (Performance as of 9-30-08; 14% of Final Reports Received)</u>			<u>FY 2008 Current Performance with FY 2009 PAR (Performance as of 9-30-09; 76% of Final Reports Received)</u>			<u>Difference</u>		
Dollars rounded to the nearest thousand.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
3. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts.										
State Partnerships										
State & Regional			\$ 39,415			\$ 39,415			\$ -	
Underserved Set-Aside			\$ 8,481			\$ 8,481			\$ -	
Subtotal State Partnerships			\$ 47,896			\$ 47,896			\$ -	
Other Public & Private Partnerships			\$ 222			\$ 222			\$ -	
Total Partnerships for the Arts		82	\$ 48,118		82	\$ 48,118			\$ -	
a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly.	The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment.	2,000-2,250			2,000-2,250			on target		
b. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment.	The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.	12			15			on target		
GRAND TOTAL GRANTMAKING FUNDS (Obligations, excluding Interagency and Gift funds.)		2,245	\$ 121,766		2,245	\$ 121,766		0	\$ -	
Cross-Cutting Indicators	The amount of matching funds reported by Arts Endowment grantees.	707 m			595 m			below		
	The number of distinct communities directly benefiting from Arts Endowment-funded projects.	2,950						above		

3,600

National Endowment for the Arts
FY 2009 PERFORMANCE REPORT (Excluding Recovery Act Grants)
September 2009

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2009 Projections with FY 2009 Performance Plan (as of July 31, 2007)</u>			<u>FY 2009 Final Projections with FY 2009 PAR (Performance as of 9-30-09; 13% of Final Reports Received)</u>			<u>Difference</u>		
The Arts Endowment is committed to implementing both quantitative and qualitative performance measures. This table includes representative quantitative measures; the accompanying narrative portion of this report discusses qualitative measures.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
1. ACCESS TO ARTISTIC EXCELLENCE: Foster and preserve excellence in the arts and provide access to the arts for all Americans.			\$ 75,808		2,106	\$ 59,693		(212)	\$ (16,115)	
a. Artists & arts organizations have opportunities to create, interpret, present, & perform artistic work.	The number of projects whose primary purpose is to create or present art.	2,318		1,050-1,300						on target
	The number of artists participating in projects whose primary purpose is to create art.			75,000-100,000			1,126			above
b. Audiences throughout the Nation have opportunities to experience a wide range of art forms & activities.	The number of individuals directly benefiting from projects whose primary purpose is to make the arts widely available to the public (excluding broadcast audiences).			40-50 m			109,000			on target
c. The arts contribute to the strengthening of communities.	The number of projects whose primary purpose is to strengthen communities through access to the arts.			200-250			210			on target
d. Artistic works & cultural traditions are preserved.	The number of projects whose primary purpose is the preservation of artistic works & cultural traditions.			160-200			223			above
e. Organizations enhance their ability to achieve their artistic & public service goals.	The number of projects whose primary purpose is to assist organizations to enhance their abilities to achieve their artistic & public service goals..			350-450			327			below
2. LEARNING IN THE ARTS: Advance arts education for children and youth.		250	\$ 12,500		218	\$ 12,918		(32)	\$ 418	
a. Children & youth demonstrate skills, knowledge, and/or understanding of the arts, consistent with national, state, or local arts education standards.	The number of projects whose primary purpose is to impart to children & youth newly acquired skills, knowledge, and/or understanding of at least one art form.			225-250			187			below
	The number of children & youth directly participating in projects whose primary purpose is to impart newly acquired skills, knowledge, and/or understanding of at least one art form.			.5-1.5 m			.3 m			below
b. Teachers, artists, & others demonstrate knowledge & skills necessary to engage children & youth in arts learning, consistent with national, state, or local arts education standards.	The number of projects whose primary purpose is to provide professional development opportunities for teachers, artists, & other arts instruction providers.			5-10			26			above
c. National, State, and local entities demonstrate a commitment to arts learning for children & youth, consistent with national, state, or local arts education standards.	The number of national initiatives in which the Arts Endowment directly participates that recognize and support the arts as essential to the development of children & youth.			2-5			3			on target

Dollars rounded to the nearest thousand.

**National Endowment for the Arts
FY 2009 PERFORMANCE REPORT (Excluding Recovery Act Grants)
September 2009**

<u>GENERAL GOALS AND PERFORMANCE GOALS (OUTCOMES)</u>	<u>SELECTED PERFORMANCE MEASURES (INDICATORS)</u>	<u>FY 2009 Projections with FY 2009 Performance Plan (as of July 31, 2007)</u>			<u>FY 2009 Final Projections with FY 2009 PAR (Performance as of 9-30-09; 13% of Final Reports Received)</u>			<u>Difference</u>		
The Arts Endowment is committed to implementing both quantitative and qualitative performance measures. This table includes representative quantitative measures; the accompanying narrative portion of this report discusses qualitative measures.		<u># of Awards</u>	<u>\$</u>	<u>Target Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Current Levels</u>	<u># of Awards</u>	<u>\$</u>	<u>Extent of Activity</u>
3. PARTNERSHIPS FOR THE ARTS: Develop and maintain partnerships that advance the mission of the National Endowment for the Arts.										
State Partnerships										
State & Regional			\$ 46,465			\$ 41,622			\$ (4,843)	
Underserved Set-Aside			\$ 12,575			\$ 8,894			\$ (3,681)	
Subtotal State Partnerships			\$ 59,040			\$ 50,516			\$ (8,524)	
Other Public & Private Partnerships			\$ 252			\$ 257			\$ 5	
Total Partnerships for the Arts		80	\$ 59,292		80	\$ 50,773		0	\$ (8,519)	
a. State arts agencies & regional arts organizations enable the Arts Endowment to make the arts available in more communities than it could directly.	The number of communities reached through grants made solely with NEA funds by State arts agencies and regional arts organizations utilizing partnership agreements with the Arts Endowment.	2,000-2,500			2,000-2,500			on target		
b. Other public & private sector organizations support arts activities that advance the mission of the Arts Endowment.	The number of other government agencies participating in interagency arrangements with the Arts Endowment that support the Arts Endowment's mission.	5-10			12			above		
GRAND TOTAL GRANTMAKING FUNDS		2,648	\$ 147,600			\$ 123,384		(2,648)	\$ (24,216)	
Cross-Cutting Indicators	The amount of matching funds reported by Arts Endowment grantees.	625-675 m			612 m			below		
	The number of distinct communities directly benefiting from Arts Endowment-funded projects.	4,000-4,500			3,600-4,000			below		

Dollars rounded to the nearest thousand.

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Fiscal Year 2009 Performance and Accountability Report ~ A Message from the Director of Finance ~

I am pleased to join with Chairman Landesman in presenting the National Endowment for the Arts' *Fiscal Year 2009 Performance and Accountability Report*. This report summarizes the Arts Endowment's performance and accomplishments – programmatically, financially, and operationally – during the past year.

Fiscal Year 2009 has been a time of continued refinement for the Arts Endowment's financial operations. Through a cross-servicing agreement with the U.S. Department of Transportation, the NEA uses a federal financial system that is fully compliant with the requirements of the Office of Management and Budget's Office of Federal Financial Management. All FY 2009 transactions were recorded in the system. We continue to improve our knowledgebase of the Oracle system, crosswalks to the financial statements, and transactional flows to comply with new requirements. During FY 2009, we automated our financial statements with integrity checks to reduce data entry errors and to provide consistent treatment of accounts, and developed a better methodology for reporting costs by programmatic goal. Our financial statements independent audit has been successfully completed, resulting for the seventh consecutive year in an unqualified opinion. During the audit, one material weakness and one significant deficiency were identified; the former was immediately resolved and the latter will be fully resolved by the middle of FY 2010.

Also during Fiscal Year 2010, we will continue enhancing reporting systems to improve succession planning and training capabilities, to ensure adherence to all applicable guidance, and to optimize efficiencies from improved use of technology. In addition, we will be processing payments related to the nearly 700 grants awarded through the American Recovery and Reinvestment Act of 2009. Also, we will be working with other offices in the Agency on the conversion of our outmoded grants management system to a system developed by the National Endowment for the Humanities, which will include integrating that system with our finance system where relevant. We are confident that our finance system supports the Agency's ongoing commitment to ensuring that we are fully accountable for the funds that have been entrusted to us for the benefit of the American people.

A handwritten signature in blue ink that reads "Sandra L. Stueckler".

Sandra L. Stueckler
Director of Finance

November 16, 2009

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***Financial Statements
and Related Auditor's Report
Fiscal Year 2009***

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Inspector General, National Endowment for the Arts
Chairman, National Endowment for the Arts

Independent Auditor's Report

We have audited the balance sheets of the National Endowment for the Arts (the Arts Endowment) as of September 30, 2009 and 2008, and the related statements of net cost, changes in net position, and budgetary resources (the financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the Arts Endowment's internal control over financial reporting and tested the Agency's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we found that the Arts Endowment's financial statements as of and for the years ended September 30, 2009 and 2008, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified one material weakness in financial reporting related to cost accounting.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements* (as amended).

The following sections discuss in more detail our opinion on the Arts Endowment's financial statements, our consideration of the Agency's internal control over financial reporting, our tests of compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the Arts Endowment as of September 30, 2009 and 2008, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

In our report dated November 12, 2008, we expressed an opinion that the 2008 financial statements presented fairly, in all material respects, the budgetary resources of the Arts Endowment as of and for the years ended September 30, 2008, in conformity with accounting principles generally accepted in the United States of America. In 2008, the Arts Endowment presented its program support and administrative revenue and expenditures in the Statement of Net Cost as costs and revenues not assigned to programs. During 2009, the Arts Endowment determined that OMB Circular A-136 requires the reporting entity to report the full cost of each program's output, which consists of: (a) both direct and indirect costs of the output, and (b) the costs of identifiable supporting services provided by other segments within the reporting entity and by other reporting entities. The Arts Endowment reduced the Costs Not Assigned to Programs line by \$26,808,147 and distributed those costs among its program goals.

As a result of this restatement, our previous report on the 2008 financial statements is not to be relied upon because the previously issued financial statements were materially misstated and that report is replaced by this report on the restated financial statements. The circumstances related to this restatement are more fully described in Note 17 and in our reporting on controls, beginning on the next page.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, net cost, changes in net position, and budgetary resources of the Arts Endowment as of and for the years ended September 30, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of Arts Endowment management regarding the methods of measurement and presentation of the supplementary information and analysis of the information for consistency with the financial statements. However, we did not audit the information and express no opinion on it. The Performance and Accountability Report, except for Management's Discussion and Analysis, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Arts Endowment as of and for the years ended September 30, 2009 and 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Arts Endowment's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Arts Endowment's internal control. Accordingly, we do not express an opinion on the effectiveness of the Arts Endowment's internal control.

Because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph in this section of the report and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency. We consider the item related to cost accounting to be a material weakness.

1. The Arts Endowment did not have a cost accounting methodology sufficient to report the full costs of outputs in general purpose financial reports.

Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards and Concepts* requires each reporting entity to accumulate and report the costs of its activities on a regular basis, either through the use of cost accounting systems or through the use of cost finding techniques. The U.S. Standard General Ledger (USSGL) defines the specific general ledger accounts that are to be included in each line in each Federal financial statement. Under that definition, the Statement of Net Cost line, "Costs Not Assigned to Programs", may only contain costs related to employee benefits that will be paid in the future, certain losses, and certain extraordinary items.

In previous years, the Arts Endowment determined costs for programs by specifically identifying each cost that was directly related to grants or program support and directly tracing each cost to the specific strategic goal to which the cost related. These costs were accumulated and presented in the Statement of Net Cost together with specifically identified earned revenues related to each goal to determine the net cost of each goal. One of the goals in the Arts Endowment strategic plan relates to strategic management of human capital. The Arts Endowment had grouped those costs not assigned to other specific program goals, primarily consisting of human capital and other administrative costs, and reported them under the caption “Costs Not Assigned to Programs” in the Statement of Net Costs. The Arts Endowment considered these costs to represent the cost of the strategic management of human capital goal.

During the year, the auditors determined that the Arts Endowment’s inclusion of human capital and administrative costs in “Costs Not Assigned to Programs” did not comply with the USSGL definitions for that line item and that those costs should be assigned to the program goals reported on the Statement of Net Cost. The Arts Endowment independently researched the issue, determined that the human capital and administrative costs should be assigned to programs, and developed a cost accounting methodology.

The Arts Endowment’s prior year Statement of Net Cost did not conform to the cost accounting requirements of SFFAS No. 4. During 2009, the Arts Endowment developed a cost accounting methodology that assigns costs to programs, prepared the 2009 financial statements using that methodology, and restated the Statement of Net Costs as of September 30, 2008.

Recommendation

We recommended that the Arts Endowment develop a cost accounting methodology. The Agency developed their methodology and implemented it in preparing financial statements as of and for the periods ended June 30 and September 30, 2009.

Management Response

As stated above, when it was brought to the attention of the Agency that our prior year Statement of Net Cost did not conform to the cost accounting requirements of SFFAS No. 4, we immediately took steps to rectify the situation. We researched the options for assigning human capital and administrative costs to programs, and implemented a methodology for assigning such costs on a reasonable and consistent basis, in line with the requirements of SFFAS No. 4. Based on this new methodology, we have re-stated our Statement of Net Cost for Fiscal Year 2008, and have applied the methodology to our FY 2009 financial statements. We appreciate the auditors’ acknowledgment that we have satisfactorily resolved this matter.

2. The Arts Endowment did not have procedures in place to record advances to grantees.

Statement of Federal Financial Accounting Standards No. 1, *Accounting for Selected Assets and Liabilities*, defines advances as cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. The standard requires advances to be recorded as assets and reduced when goods or services are received. For grants, receipt of goods or services equates to grantees incurring reimbursable expenditures under their grants.

The Arts Endowment's *General Terms & Conditions for Grants and Cooperative Agreements to Organizations* state, "Payment requests must reflect expenses to be incurred within 30 days from the date the authorizing official signs the request (advance) and/or costs already incurred (reimbursement)." Because the time between receipt of a payment request and disbursement of funds approximates 30 days, the periods covered by payment requests generally expire before or shortly after the Arts Endowment disburses funds to grantees. Assessments that the Arts Endowment has performed in the past, including findings from audits and evaluations performed by the Office of Inspector General, have shown that grantees rarely fail to comply with the requirement to expend funds within 30 days of the payment request. As such, the Arts Endowment normally records grant payments as expenses.

During our testing of payment requests on grants awarded under the American Recovery and Reinvestment Act (ARRA) of 2009, and comparison of those requests to grantees' reporting of expenditures on the Recovery.gov website, we noted that some grantees' reports suggested that they had not expended all of the Arts Endowment funding within the 30 day time period required by the grant terms and conditions. We concluded that at least some of those grantees had likely obtained funds as advances.

In its draft financial statements as of September 30, 2009, the Arts Endowment had recorded only advances to other Federal agencies but had not recorded advances to grantees. When we notified Arts Endowment management of our preliminary findings regarding ARRA grants, they conducted a detailed review of grantees that had reported more funds received than expended in their initial ARRA reporting. The Arts Endowment determined that those grantees had obtained \$579,527 in advances and adjusted their financial statements to increase assets and reduce expenses by that amount.

Recommendation

The Arts Endowment corrected their 2009 Balance Sheet and Statement of Net Cost for the amount of the advances to ARRA grantees.

1. We recommend that the Arts Endowment develop policies and procedures to identify (or estimate) and record as advances those payments to ARRA grantees that cover expenses grantees have requested before they have incurred actual expenditures.
2. We also recommend that the Arts Endowment establish a process to assess periodically the risks that recipients of funds under the Agency's other programs may be obtaining advances, especially during the economic downturn, and develop procedures for recording such advances when identified.

Management Response

The Arts Endowment agrees with the facts as presented and is committed to acting on both recommendations, with implementation according to the following timetable:

1. By the end of the first quarter of FY 2010 (December 2009); and
2. By the end of the second quarter of FY 2010 (March 2010).

Management of the Arts Endowment reported the aforementioned material weakness in its reporting prepared pursuant to the Federal Managers' Financial Integrity Act (FMFIA), beginning on page 15.

A summary of the status of the prior year finding is included as Attachment 1.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04 (as amended).

RESPONSIBILITIES

Management Responsibilities

Management of the Arts Endowment is responsible for: (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the FMFIA are met; and (3) complying with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditor Responsibilities

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements* (as amended). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes (1) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the Arts Endowment's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 07-04 (as amended) and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA. Our procedures were not designed to provide an opinion on internal control over financial reporting. Consequently, we do not express an opinion thereon.

As required by OMB Bulletin 07-04 (as amended), with respect to internal control related to performance measures determined to be key and reported in Management's Discussion and Analysis, we made inquiries of management concerning the methods of preparing the information, including whether it was measured and presented within prescribed guidelines; changes in the methods of measurement or presentation from those used in the prior period(s) and the reasons for any such changes; and significant assumptions or interpretations underlying the measurement or presentation. We also evaluated the consistency of Management's Discussion and Analysis with management's responses to the foregoing inquiries, audited financial statements, and other audit evidence obtained during the examination of the financial statements. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts, noncompliance with which could have a direct and material effect on the determination

of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 07-04 (as amended). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Arts Endowment. Providing an opinion on compliance with certain provisions of laws, regulations, and significant contract provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

AGENCY COMMENTS AND AUDITOR EVALUATION

In commenting on the draft of this report, the management of Arts Endowment concurred with the facts and conclusions in our report. A copy of management's response, which includes discussion of actions planned or taken to correct the reported deficiencies, accompanies this report.

The Arts Endowment's written response to the significant deficiency and material weakness identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

DISTRIBUTION

This report is intended solely for the information and use of the management, the Chairman, the Office of Inspector General and others within the Arts Endowment, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.


Leon Snead & Company, P.C.
November 9, 2009

ATTACHMENT I

Status of Prior Year Findings

<u>Description</u>	<u>Status as of September 30, 2009</u>
1. The Arts Endowment included donations in Offsetting Receipts in the Statement of Budgetary Resources (SBR) for the year ended September 30, 2007. During 2008, the Agency determined that the donations were classified as "Budgetary Receipts", which are not considered to be offsetting receipts for purposes of reporting in the SBR.	<p>1. The Arts Endowment restated its SBR for the year ended September 30, 2007 and presented Offsetting Receipts in 2008 and 2009 in a manner consistent with its restated 2007 financial statements.</p> <p>On September 14, 2009, the Department of Treasury, Financial Management Services, issued Treasury Bulletin No. 2009-05, which reclassifies the Arts Endowment's donations from "Budgetary Receipts" to a category titled "Proprietary Receipts from the Public". This reclassification will require the Arts Endowment's donations to be included again in the Offsetting Receipts line of the SBR, beginning with the Agency's reporting for the quarter ending December 31, 2009.</p>

National Endowment for the Arts
CONSOLIDATED BALANCE SHEET
As of September 30, 2009 and 2008
(In Dollars)

	September 30, 2009			September 30, 2008 (Restated)		
	All Other	Earmarked Funds	Cumulative	All Other	Earmarked Funds	Cumulative
ASSETS:						
Intragovernmental:						
Fund Balance With Treasury (Note 2)	\$ 187,979,812	\$ 2,473,931	\$ 190,453,743	\$ 134,781,387	\$ 3,018,785	\$ 137,800,172
Investments (Note 3)	-	839,810	839,810	-	1,080,670	1,080,670
Accounts Receivable (Note 4)	620	-	620	726	-	726
Other Assets (Note 6)	405,026	-	405,026	247,891	-	247,891
Total Intragovernmental	<u>\$ 188,385,458</u>	<u>\$ 3,313,741</u>	<u>\$ 191,699,199</u>	<u>\$ 135,030,004</u>	<u>\$ 4,099,455</u>	<u>\$ 139,129,459</u>
Accounts Receivable (Note 4)	47,500	-	47,500	74,130	-	74,130
Other Assets (Note 6)	579,527	-	579,527	-	-	-
 TOTAL ASSETS	 <u>\$ 189,012,485</u>	 <u>\$ 3,313,741</u>	 <u>\$ 192,326,226</u>	 <u>\$ 135,104,134</u>	 <u>\$ 4,099,455</u>	 <u>\$ 139,203,589</u>
 LIABILITIES:						
Intragovernmental:						
Accounts Payable (Note 7,8)	\$ 2,860,879	\$ -	\$ 2,860,879	\$ 4,274,932	\$ 1,104	\$ 4,276,036
Total Intragovernmental	<u>\$ 2,860,879</u>	<u>\$ -</u>	<u>\$ 2,860,879</u>	<u>\$ 4,274,932</u>	<u>\$ 1,104</u>	<u>\$ 4,276,036</u>
Accrued Liabilities (Notes 7,8)	52,704,992	524,493	53,229,485	42,386,874	503,825	42,890,699
Other (Notes 7,8)	2,801,971	-	2,801,971	2,062,710	9,932	2,072,642
 TOTAL LIABILITIES	 <u>\$ 58,367,842</u>	 <u>\$ 524,493</u>	 <u>\$ 58,892,335</u>	 <u>\$ 48,724,516</u>	 <u>\$ 514,861</u>	 <u>\$ 49,239,377</u>
Commitments and contingencies (Note 1)						
 NET POSITION:						
Unexpended Appropriations	\$ 133,982,086	\$ -	\$ 133,982,086	\$ 89,645,779	\$ -	\$ 89,645,779
Cumulative Results of Operations	(3,337,443)	2,789,248	(548,195)	(3,266,161)	3,584,594	318,433
 TOTAL NET POSITION	 <u>\$ 130,644,643</u>	 <u>\$ 2,789,248</u>	 <u>\$ 133,433,891</u>	 <u>\$ 86,379,618</u>	 <u>\$ 3,584,594</u>	 <u>\$ 89,964,212</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 189,012,485</u>	 <u>\$ 3,313,741</u>	 <u>\$ 192,326,226</u>	 <u>\$ 135,104,134</u>	 <u>\$ 4,099,455</u>	 <u>\$ 139,203,589</u>

The accompanying notes are an integral part of these statements

National Endowment for the Arts
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2009 and September 30, 2008
(In Dollars)

	<u>2009</u>	<u>2008</u> <u>(Restated)</u>
Program Costs (Note 11):		
Access to Artistic Excellence:		
Gross Costs	\$ 92,028,267	\$ 77,188,386
Less: Earned Revenue	<u>(1,618,819)</u>	<u>(1,659,135)</u>
Net Access to Artistic Excellence Costs	\$ 90,409,448	\$ 75,529,251
Learning in the Arts:		
Gross Costs	\$ 16,776,457	\$ 15,195,063
Less: Earned Revenue	<u>(450,880)</u>	<u>(301,356)</u>
Net Learning in the Arts Costs	\$ 16,325,577	\$ 14,893,707
Partnerships for the Arts:		
Gross Costs	\$ 57,093,439	\$ 40,779,386
Less: Earned Revenue	<u>(297,813)</u>	<u>(298,265)</u>
Net Partnerships for the Arts Costs	\$ 56,795,626	\$ 40,481,121
 Total Program Costs	 \$ 163,530,651	 \$ 130,904,079
 Net Cost of Operations	 <u>\$ 163,530,651</u>	 <u>\$ 130,904,079</u>

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2009 and 2008
(In Dollars)

	FY 2009			FY 2008 (Restated)		
	Earmarked Funds	All Other Funds	Consolidated Total	Earmarked Funds	All Other Funds	Consolidated Total
Cumulative Results of Operations:						
Beginning Balances	\$ 3,584,593	\$ (3,266,163)	\$ 318,430	\$ 4,200,652	\$ (3,617,467)	\$ 583,185
Adjusted Beginning Balances	\$ 3,584,593	\$ (3,266,163)	\$ 318,430	\$ 4,200,652	\$ (3,617,467)	\$ 583,185
Budgetary Financing Sources:						
Appropriations Used		\$ 160,663,695	\$ 160,663,695		\$ 127,589,447	\$ 127,589,447
Non-Exchange Revenue	3,956	-	3,956	30,609	-	30,609
Donations	529,185	-	529,185	1,648,884	-	1,648,884
Other Financing Sources (Non-Exchange)						
Donations and Forfeitures of Property	-	-	-	42,000	-	42,000
Imputed financing	-	1,467,190	1,467,190	-	1,328,387	1,328,387
Total Financing Sources	\$ 533,141	\$ 162,130,885	\$ 162,664,026	\$ 1,721,493	\$ 128,917,834	\$ 130,639,327
Net Cost of Operations	1,328,486	162,202,165	163,530,651	2,337,551	128,566,528	130,904,079
Net Change	\$ (795,345)	\$ (71,280)	\$ (866,625)	\$ (616,058)	\$ 351,306	\$ (264,752)
Cumulative Results of Operations	\$ 2,789,248	\$ (3,337,443)	\$ (548,195)	\$ 3,584,594	\$ (3,266,161)	\$ 318,432
Unexpended Appropriations:						
Beginning Balances		\$ 89,645,781	\$ 89,645,781		\$ 72,528,426	\$ 72,528,426
Adjusted Beginning Balances		\$ 89,645,781	\$ 89,645,781		\$ 72,528,426	\$ 72,528,426
Budgetary Financing Sources:						
Appropriations Received		\$ 205,000,000	\$ 205,000,000		\$ 147,000,000	\$ 147,000,000
Other Adjustments		-	-		(2,293,200)	(2,293,200)
Appropriations Used		(160,663,695)	(160,663,695)		(127,589,447)	(127,589,447)
Total Budgetary Financing Sources		\$ 44,336,305	\$ 44,336,305		\$ 17,117,353	\$ 17,117,353
Total Unexpended Appropriations		\$ 133,982,086	\$ 133,982,086		\$ 89,645,779	\$ 89,645,779
Net Position	\$ 2,789,248	\$ 130,644,643	\$ 133,433,891	\$ 3,584,594	\$ 86,379,618	\$ 89,964,212

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2009 and September 30, 2008
(In Dollars)

	2009	2008 (Restated)
BUDGETARY RESOURCES		
Unobligated Balance, Start of Year:		
Brought Forward, October 1	\$ 6,591,199	\$ 7,578,921
Recoveries of Prior Year Obligations:		
Actual	1,473,694	1,571,887
Budget Authority (Note 12):		
Appropriation		
Actual	205,536,125	148,686,650
Spending Authority from Offsetting Collections:		
Earned		
Collected	3,452,271	1,567,756
Change in Unfilled Customer Orders:		
Advance Received	(891,390)	651,664
Without Advance from Federal Sources	1,131,425	355,310
Subtotal	209,228,431	151,261,380
Permanently Not Available:		
Enacted Reductions	-	(2,293,200)
TOTAL BUDGETARY RESOURCES	\$ 217,293,324	\$ 158,118,988
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred (Note 12):		
Direct:		
Category B	\$ 201,722,556	\$ 148,880,120
Reimbursable:		
Category B	3,013,098	2,647,669
Subtotal	204,735,654	151,527,789
Unobligated Balance:		
Apportioned:		
Balance, Currently Available	12,557,670	6,591,199
TOTAL STATUS OF BUDGETARY RESOURCES	\$ 217,293,324	\$ 158,118,988
CHANGE IN OBLIGATED BALANCE:		
Obligated Balance, Net, Start of Year:		
Unpaid Obligations, Start of Year:		
Unpaid Obligations, Brought Forward, October 1	\$ 132,641,937	\$ 119,453,530
Uncollected Customer Payments from Federal Sources, Start of Year:		
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(355,310)	
Total, Unpaid Obligated Balance, Brought Forward, Net	\$ 132,286,627	\$ 119,453,530
Obligations Incurred	\$ 204,735,654	\$ 151,527,789
Gross Outlays	(155,681,312)	(136,767,492)
Recoveries of Prior Year Obligations	(1,473,694)	(1,571,887)
Change in Uncollected Customer Payments from Federal Sources	(1,131,425)	(355,310)
Obligated Balance Net, End of Period:		
Unpaid Obligations	180,222,586	132,641,937
Uncollected Customer Payments from Federal Sources	(1,486,735)	(355,310)
Total, Unpaid Obligated Balance Net, End of Period	\$ 178,735,851	\$ 132,286,627
Net Outlays:		
Gross Outlays	\$ 155,681,312	\$ 136,767,492
Offsetting Collections	(2,560,881)	(2,219,420)
Less: Distributed Offsetting Receipts	(10,156)	(546,320)
Net Outlays	\$ 153,110,275	\$ 134,001,752

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

The following footnotes and instructions include the disclosure requirements contained in the Statements of Federal Financial Accounting Standards (SFFAS).

Note 1. Significant Accounting Policies:

A. Reporting Entity

The National Endowment for the Arts (NEA) is an independent Federal agency whose mission is to support excellence in the arts, both new and established; bring the arts to all Americans; and provide leadership in arts education. The NEA was established as a result of the National Foundation on the Arts and the Humanities Act of 1965.

B. Basis of Presentation

These statements were prepared from the books and records of the NEA in conformity with accounting principles generally accepted in the United States, and the OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), Revised June 10, 2009, which supersedes:

- OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), dated June 3, 2008.
- M-06-27 *Fiscal Year 2006 Year-end Accounting Guidance for Earmarked Funds* (September 22, 2006), located at <http://www.whitehouse.gov/omb/memoranda/fy2006/m06-27.pdf>.
- *Future External Reporting Changes* (December 21, 2001), located at http://www.whitehouse.gov/omb/financial/year_end_reporting_2001.pdf.
- *Requirements for Accountability of Tax Dollars Act* (December 6, 2002), located at http://www.whitehouse.gov/omb/financial/accountability_of_tax_dollars.pdf.
- M-04-20 FY 2004 *Performance and Accountability Reports and Reporting Requirements for the Financial Report of the United States Government* (July 22, 2004), located at <http://www.whitehouse.gov/omb/memoranda/fy04/m04-20.pdf>.
- Memorandum FY 2002 *Financial and Performance Reporting*, dated October 18, 2002.
- Bulletin 01-09 *Form and Content of Agency Financial Statements*, revised September 25, 2001.

The statements consist of the: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Footnotes. These financial statements have been prepared to report the financial position and results of operations of the NEA.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

Note 1. Significant Accounting Policies (Continued):

C. Basis of Accounting

Transactions are recorded on a budgetary basis, with large categories such as payroll and grant liabilities recorded on an accrual basis. Under the accrual method, expenses are recognized when liabilities are incurred and revenues are recognized when earned, without regard to payment or receipt of cash. Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over use of Federal funds.

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the Federal Government, the Secretary of the Treasury, the Comptroller of the United States, the Director of OMB, and the Joint Financial Management Improvement Program (JFMIP) established the Federal Accounting Standards Advisory Board (FASAB) in 1990. The American Institute of Certified Public Accountants Council designated FASAB as the accounting standards authority for Federal government entities.

In 2004, the JFMIP became the Financial Systems Integration Office (FSIO) within the General Services Administration, which works closely with OMB and the Chief Financial Officers (CFO) Council to update FSIO's mission and scope of activities.

D. Revenues and Other Financing Sources

NEA receives funding through annual Congressional appropriations from the budget of the United States. No-year appropriations are used, within statutory limits, for operations and capital expenditures for essential personal property. Through the "American Recovery and Reinvestment Act of 2009," the NEA was provided a one-time appropriation of \$50 million. These funds must be obligated by the conclusion of FY 2010 and are to be used to preserve jobs in the arts.

Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

An Arts and Artifacts Indemnity Fund was established by Congress to address insurance issues that may arise in the course of national exhibits.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

Note 1. Significant Accounting Policies (Continued):

D. Revenues and Other Financing Sources (Cont'd)

NEA was granted the authority to receive donations and to invest in interest-bearing accounts. Appropriate accounting guidelines are followed for both restricted and unrestricted funds.

NEA enters into Intragovernmental reimbursable agreements. The NEA's pricing policy on these exchange revenue transactions is based on mutually approved agreements, with no profits or losses.

E. Fund Balance with Treasury

Funds with the Department of the Treasury primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. Some donations carry restrictions as to the use of donated funds. See Note 2 for additional information.

F. Advances and Prepayments

NEA interagency agreements with other Federal agencies are recorded as advances in cases where funds are received prior to expenditure. As work is performed by NEA, expenditures are incurred and advances reduced. Advances are recorded for Intragovernmental Transactions until the expenditures or revenues are reported by the Trading Partner, at which time the advance is reduced and the expense/revenue is recognized.

G. General Property, Plant and Equipment, Net

NEA policy is to depreciate property, plant and equipment over the estimated useful life of the asset. NEA's capitalization threshold is \$50,000 for individual purchases and \$50,000 for bulk purchases with a minimum \$10,000 per item. Service lives are as shown below:

<u>Description</u>	<u>Life</u>
Leasehold Improvements	Term of Lease
Capital Leases	Term of Lease
Office Furniture	10 Years
Computer Equipment & Software	4 Years
Office Equipment	7 Years
Vehicles	8 Years

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

Note 1. Significant Accounting Policies (Continued):

H. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by NEA as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation (or, in some cases, donated funds). Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities.

I. Accounts Payable

Accounts payable consists of amounts owed to other federal agencies and trade accounts payable.

J. Accounts Receivable

NEA uses the specific identification method to recognize an allowance for uncollectible accounts receivable and related bad debt expenses.

K. Annual, Sick and Other Leave

Annual leave and credit hours are accrued when earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates and balances. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

L. Retirement Plans

NEA employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 participate in CSRS unless they elected to join FERS and Social Security.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008

(In Dollars)

Note 1. Significant Accounting Policies (Continued)

L. Retirement Plans (Continued):

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and NEA makes a mandatory one percent contribution to this account. In addition, NEA makes matching contributions, ranging from one to four percent, for FERS-eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, NEA remits the employer's share of the required contribution.

NEA does not report on its financial statements information pertaining to the retirement plans covering its employees, except for imputed costs related to retirement (see M. below). Reporting amounts such as plan assets and accumulated plan benefits, if any, is the responsibility of the Office of Personnel Management.

M. Imputed Benefit Costs

NEA reports imputed benefit costs on Life Insurance, Health Insurance, and Retirement. The Office of Personnel Management (OPM) provides the cost factors that are applied to the Agency's records.

N. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

O. Contingencies

There are no commitments or contingencies that require disclosure.

P. Earmarked Fund

Since the NEA earmarked fund is represented by one appropriation, "Gifts and Donations" 59X8040, there are no eliminations of this type of activity within the agency, nor any need for additional subtotal or total columns.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 2: Fund Balance With Treasury

	September 30, 2009	September 30, 2008
Fund Balance:		
Trust Funds	\$ 2,473,931	\$ 3,018,785
Appropriated Funds	187,979,812	134,781,387
Fund Balance with Treasury – Subtotal	\$ 190,453,743	\$ 137,800,172
Invested in Public Debt Treasury Bills, net	839,778	1,077,655
Fund Balance With Treasury – Total	\$ 191,293,521	\$ 138,877,827
Status of Budgetary Resources:		
Unobligated Balance:		
Available Other	\$ 10,870,238	\$ 4,455,151
Available Trust Fund	1,687,432	2,136,049
Subtotal – Available	\$ 12,557,670	\$ 6,591,200
Obligated Balance not yet Disbursed Other	\$ 178,596,308	\$ 130,681,547
Obligated Balance not yet Disbursed Trust Fund	1,626,278	1,960,390
Subtotal - Obligated	180,222,586	132,641,937
Unfilled Orders – Reimbursable	(1,486,735)	(355,310)
	\$ 191,293,521	\$ 138,877,827

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 3: Investments

September 30, 2009	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	\$ 839,778	Effective Interest	\$ 223	\$ 840,001	\$ 840,001
Accrued Interest on Public Debt Bills	32				32
Total	<u>\$ 839,810</u>				<u>\$ 840,033</u>
September 30, 2008	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	\$ 1,077,655	Effective Interest	\$ 6,581	\$ 1,084,236	\$ 1,084,236
Accrued Interest on Public Debt Bills	3,015				3,015
Total	<u>\$ 1,080,670</u>				<u>\$ 1,087,251</u>

The Federal Government does not set aside assets to pay for future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the NEA as evidence of its receipts. Treasury securities are an asset to the NEA and a liability to the U.S. Treasury. Because the NEA and the U.S. Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government.

Treasury securities provide the NEA with authority to draw upon the U.S. Treasury to make future expenditures. When the NEA requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 4: Accounts Receivable

	September 30, 2009	September 30, 2008
Gross Receivables:		
Custodial Receivables (Nonentity)	\$ 47,500	\$ 57,500
Receivables Due from Govt entities	620	726
Receivables Due from the Public	-	16,630
	<u>\$ 48,120</u>	<u>\$ 74,856</u>
Allowance for Uncollectibles:	-	-
Net Receivables	<u><u>\$ 48,120</u></u>	<u><u>\$ 74,856</u></u>

NOTE 5: General Property, Plant, And Equipment

Class of Property	September 30, 2009			September 30, 2008		
	Cost	Accumulated Depreciation	Book Value	Cost	Accumulated Depreciation	Book Value
Furniture & Equipment	\$ 132,845	\$ 132,845	\$ -	\$ 132,845	\$ 132,845	\$ -
Total	<u><u>\$ 132,845</u></u>	<u><u>\$ 132,845</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 132,845</u></u>	<u><u>\$ 132,845</u></u>	<u><u>\$ -</u></u>

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 6: Other Assets

	September 30, 2009	September 30, 2008
Intragovernmental:		
Open World Leadership Center (1)	\$ 363,187	\$ 119,966
Abraham Lincoln Bicentennial Commission (2)	-	12,770
Department of Transportation (3)	41,839	15,155
Library of Congress (4)	-	100,000
With the Public:		
Grant Advances – Various States (5)	579,527	-
Total Other Assets	\$ 984,553	\$ 247,891

Other Information:

1. The Open World Program enables emerging leaders from Russia and other Eurasian countries to experience American democracy and civil society in action.
2. The Abraham Lincoln Bicentennial Commission's program of poetry in celebration of the Abraham Lincoln Bicentennial, preceded and followed by musical ensembles.
3. Advance to the Department of Transportation for the purchase of Metrocheks.
4. The Library of Congress' National Book Festival featured an NEA Poetry Pavilion Program where poets and Poetry Out Loud State champions read.
5. Through the American Recovery and Reinvestment Act of 2009 (ARRA), some grant payments were made to certain States in advance of expenditure.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 7: Liabilities Not Covered By Budgetary Resources

	September 30, 2009	September 30, 2008
Accrued Unfunded Leave Non-Federal	\$ 1,327,703	\$ 1,335,817
Actuarial FECA Liability Federal	503,788	907,895
Unfunded FECA Liability Federal	6,416	130,204
Total Liabilities Not Covered By Budgetary Resources	\$ 1,837,907	\$ 2,373,916

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 8: Liabilities

	September 30, 2009			September 30, 2008		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental:						
Accrued Payables - Invoices	\$ -	\$ 1,273	\$ 1,273	\$ -	\$ 3,320	\$ 3,320
Custodial Liability	-	47,500	47,500	-	57,500	57,500
Employer Contributions	-	170,240	170,240	-	142,299	142,299
Actuarial FECA Liability	-	503,788	503,788	-	907,895	907,895
Unfunded FECA Liability	-	6,416	6,416	-	130,204	130,204
Advances from Other Government Agencies	-	2,131,662	2,131,662		3,023,051	3,023,051
Accrued Liabilities	-	-	-	-	11,767	11,767
Public:						
Accrued Payables - Invoices	\$ -	\$ 660,530	\$ 660,530	\$ -	\$ 45,281	\$ 45,281
Accrued Funded Payroll	-	788,880	788,880	-	670,442	670,442
TSP Employer Contributions	-	24,858	24,858	-	21,102	21,102
Accrued Unfunded Leave	-	1,327,703	1,327,703	-	1,335,817	1,335,817
Accrued Liabilities	-	53,229,485	53,229,485	-	42,890,699	42,890,699
Total Liabilities	<u>\$ -</u>	<u>\$ 58,892,335</u>	<u>\$ 58,892,335</u>	<u>\$ -</u>	<u>\$ 49,239,377</u>	<u>\$ 49,239,377</u>

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 9: Operating Leases

Brief Description of Occupancy Agreement:

The previous occupancy agreement included rental of OPO office space and one surface parking space for a period of 66 months that expired on October 31, 2008, with a payment of \$181,778 for October 2008.

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Total Annual Rental	<u>\$2,219,317</u>	<u>\$2,217,653</u>	<u>\$2,232,267</u>	<u>\$2,160,677</u>	<u>\$2,169,415</u>

GSA has provided an occupancy agreement for November 2008 to September 2009, and an estimate for FY 2010. The agreement can be terminated upon four months' notice. The Agency's financial obligations for years beyond the current year do not mature until the later year(s) are reached. The obligation to pay rent in future years is subject to the availability of funds.

	FY 2009	FY 2010
Annual Rental	<u>\$2,707,166</u>	<u>\$2,767,127</u>

Brief Description of Copier Lease

The NEA entered into a 60 month operating lease for copiers (NEA Copy Center & walkups throughout the Endowment) in September 2008, for rental services commencing October 1, 2008 thru September 30, 2013. The Agency's financial obligations for years beyond the current year do not mature until the later year(s) are reached. The obligation to pay these lease payments in future years is subject to the availability of funds.

FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
<u>\$173,544</u>	<u>\$173,544</u>	<u>\$173,544</u>	<u>\$173,544</u>	<u>\$173,544</u>

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 10: Earmarked Funds

Gifts and Donations

Balance Sheet	September 30, 2009	September 30, 2008 (Restated)
ASSETS		
Fund Balance with Treasury	\$ 2,473,931	\$ 3,018,785
Investments	839,810	1,080,670
Total Assets	<u>\$ 3,313,741</u>	<u>\$ 4,099,455</u>
LIABILITIES		
Accounts Payable	\$ -	\$ 1,104
Accrued Expenses	524,493	503,825
Other Liabilities	-	9,932
Total Liabilities	<u>\$ 524,493</u>	<u>\$ 514,861</u>
NET POSITION		
Cumulative Results of Operations	<u>\$ 2,789,248</u>	<u>\$ 3,584,594</u>
Total Liabilities and Net Position	<u>\$ 3,313,741</u>	<u>\$ 4,099,455</u>

Statement of Net Cost	September 30, 2009	September 30, 2008 (Restated)
Gross Program Costs	\$ 1,328,486	\$ 2,337,551
Less Earned Revenue	-	-
Net Cost of Operations	<u>\$ 1,328,486</u>	<u>\$ 2,337,551</u>

Statement of Changes in Net Position	September 30, 2009	September 30, 2008 (Restated)
Net Position Beginning of Period	\$ 3,584,593	\$ 4,200,652
Non-Exchange Revenue	3,956	30,609
Cash Donations	529,185	1,648,884
Donations or Forfeitures of Property	-	42,000
Less: Net Cost of Operations	<u>(1,328,486)</u>	<u>(2,337,551)</u>
Change in Net Position	<u>\$ (795,345)</u>	<u>\$ (616,058)</u>
Net Position End of Period	<u>\$ 2,789,248</u>	<u>\$ 3,584,594</u>

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 11: Intragovernmental Costs and Exchange Revenue

	FY 2009			FY 2008 (Restated)		
	Intragovern- mental	With the Public	Total	Intragovern- mental	With the Public	Total
Access to Artistic Excellence:						
Program Costs	\$ 5,130,250	\$ 86,898,017	\$ 92,028,267	\$ 4,172,829	\$ 73,015,557	\$ 77,188,386
Earned Revenue	(1,618,819)	-	(1,618,819)	(1,659,135)	-	(1,659,135)
Net Costs - Access to Artistic Excellence	\$ 3,511,431	\$ 86,898,017	\$ 90,409,448	\$ 2,513,694	\$ 73,015,557	\$ 75,529,251
Learning in the Arts:						
Program Costs	\$ 713,119	\$ 16,063,338	\$ 16,776,457	\$ 679,340	\$ 14,515,723	\$ 15,195,063
Earned Revenue	(450,880)	-	(450,880)	(301,356)	-	(301,356)
Net Costs - Learning in the Arts	\$ 262,239	\$ 16,063,338	\$ 16,325,577	\$ 377,984	\$ 14,515,723	\$ 14,893,707
Partnerships for the Arts:						
Program Costs	\$ 317,513	\$ 56,775,926	\$ 57,093,439	\$ 169,424	\$ 40,609,962	\$ 40,779,386
Earned Revenue	(297,813)	-	(297,813)	(298,265)	-	(298,265)
Net Costs - Partnerships for the Arts	\$ 19,700	\$ 56,775,926	\$ 56,795,626	\$ (128,841)	\$ 40,609,962	\$ 40,481,121
Total:						
Program Costs	\$ 6,160,882	\$159,737,281	\$165,898,163	\$ 5,021,593	\$ 128,141,242	\$ 133,162,835
Earned Revenue	(2,367,512)	-	(2,367,512)	(2,258,756)	-	(2,258,756)
Net Cost of Operations	\$ 3,793,370	\$159,737,281	\$163,530,651	\$ 2,762,837	\$ 128,141,242	\$ 130,904,079

The Arts Endowment receives funds from other Federal agencies that participate in the Arts Endowment's program awards. The Arts Endowment may also incur intragovernmental costs for its participation in program awards or activities of other Federal agencies.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 12: Apportionment Categories of Obligations Incurred

The NEA is provided with funding only under Category B.

Category B	Direct	Reimbursable	Total
Apportionments	\$ 206,620,701	\$ 2,607,730	\$ 209,228,431
Obligations	\$ 201,722,557	\$ 3,013,098	\$ 204,735,654

NOTE 13: Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Fiscal Year 2011 Budget, which will include actual numbers for fiscal year 2009, has not yet been published. The FY 2011 Budget is expected to be published in February 2010 and to be available at <http://www.whitehouse.gov/omb/budget/>.

NOTE 14: Explanation of Differences Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

Components that comprise liabilities not covered by budgetary resources represent the cumulative balance of the liability. By contrast, components requiring or generating resources in future periods included in the Statement of Financing represent the change in the liability created in the current year.

NOTE 15: Undelivered Orders at the End of the Period

On the Statement of Budgetary Resources, the obligated balances, net, end of period includes the following:

Undelivered Orders:	2009	2008 (Restated)
Direct	\$ 124,338,632	\$ 86,949,562
Reimbursable	1,994,001	2,155,926
Undelivered Orders, net, end of period	<u>\$ 126,332,633</u>	<u>\$ 89,105,488</u>

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 16: Incidental Custodial Collections

	2009	2008
Proprietary Receipts from the Public	\$ -	\$ 535,976
Intrabudgetary Receipts Deducted by Agencies	10,156	10,344
	<hr/>	<hr/>
Total Custodial Collections	\$ 10,156	\$ 546,320

NOTE 17: Restatements

Accrued Expenditures

September 2008 Balance Sheet

September 2008 NOTE 16: Earmarked Funds (presented in 2009 as *NOTE 10: Earmarked Funds*)

In its previously issued financial statements, NEA presented its grant liability accruals in the *Other* line item in the public liabilities section of the *Balance Sheet*, and in the *Other Liabilities* line of *NOTE 16: Earmarked Funds*. A review of OMB Circular A-136 revealed that a material amount reported in the *Other* line item of financial statements should be reported separately because of its individual significance to the *Balance Sheet*.

For the current presentation of the September 2008 *Balance Sheet*, NEA reduced the *Other* line in the Liabilities section by \$42,386,874 for the *All Other* column, \$503,825 for the *Earmarked* column, and \$42,890,699 for the *cumulative* column. An additional line was created in the Liability section named *Accrued Liabilities*, entering the above amounts in each of their respective columns. For the current presentation of *NOTE 10: Earmarked Funds*, NEA reduced the *Other Liabilities* line by \$504,929 and created two additional lines, *Accounts Payable*, which is increased by \$1,104 and *Accrued Expenses*, which was increased by \$503,825.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

Full Costing of Costs/Revenues Not Assigned/Attributable to Programs

September 2008 Statement of Net Cost.

September 2008 NOTE 16: Earmarked Funds (presented in 2009 as *NOTE 10: Earmarked Funds*).

September 2008 NOTE 10: Grants to the Public Costs and Intragovernmental Revenue (presented in 2009 as *NOTE 11: Intragovernmental Costs and Exchange Revenue*)

In its previously issued financial statements, NEA presented its program support and administrative revenue and expenditures below the *Program Costs* section of the *Statement of Net Cost*. According to OMB Circular A-136, “the reporting entity should report the full cost of each program’s output, which consists of: (a) both direct and indirect costs of the output, and (b) the costs of identifiable supporting services provided by other segments within the reporting entity and by other reporting entities”.

In order to properly report the full cost of programs, NEA has implemented a system by which all indirect costs and revenue are now distributed to program costs using an appropriate methodology prescribed by Statements of Federal Financial Accounting Standards (SFFAS) 4: “Managerial Cost Accounting Concepts and Standards for the Federal Government”.

For the current presentation of the September 2008 *Statement of Net Cost*, NEA reduced the *Costs Not Assigned to Programs* line by \$26,808,147. This amount is now distributed among the three active Program goals within the *Statement of Net Cost* by increasing *Access to Artistic Excellence Net Costs* by \$22,291,159 (includes \$133,590 of *Access to the Arts* costs that are being merged starting in FY 2009), increasing *Learning in the Arts Net Costs* by \$3,995,110, and increasing *Partnerships for the Arts Net Costs* by \$643,507. Included in these adjustments are reductions of \$11,961 to total gross costs and to earned revenue of the same amount due to an error in calculating each respective line item. However, these adjustments do not change the *Net Cost of Operations* total. For *NOTE 10: Earmarked Funds*, NEA removed \$930,426 from *Costs Not Attributable to Program Costs* and increased *Gross Program Costs* by \$930,426 to reflect full cost of programs. For *NOTE 11: Intragovernmental Costs and Exchange Revenue*, NEA increased the *Access to Artistic Excellence Net Costs* total by \$22,269,293 (includes \$133,590 of *Access to the Arts* costs that are being merged starting in FY 2009), increasing the *Learning in the Arts Net Costs* total by \$3,993,754, and increasing *Partnerships for the Arts Net Costs* total by \$642,642. In addition, breakouts between intragovernmental costs and revenue and public costs and revenue were added in accordance with OMB Circular A-136.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

Donation of Property

September 2008 Statement of Changes in Net Position,

September 2008 NOTE 16: Earmarked Funds (presented in 2009 as NOTE 10: Earmarked Funds,

September 2008 NOTE 19: Reconciliation of Net Cost of Operations to Budget (presented in 2009 as NOTE 18: Reconciliation of Net Cost of Operations to Budget)

In its previously issued financial statements, NEA presented the combined total of cash and property donations on the *Donations* line of the Statement of Changes in Net Position.

After the Fiscal Year 2008 audit, NEA created an automated process for financial statement preparation that helps ensure consistent and reliable reporting. Part of that process included a thorough review of the Treasury crosswalks and guidance showing the correct presentation of financial statement line items. That review revealed that donations of cash and property should be reported separately rather than combined.

For the current presentation of the September 2008 Statement of Changes in Net Position, NEA decreased the amount reported on the *Donations* line by \$42,000 and entered the amount on a new line called *Donations and Forfeitures of Property* to separate the cash and non-cash donations. For NOTE 10: Earmarked Funds, \$42,000 was removed from the *Donations* line in the *Statement of Changes in Net Position* section of the note and entered on a new line called *Donations or Forfeitures of Property*. For NOTE 18: Reconciliation of Net Cost of Operations to Budget, NEA reduced the amount reported on the *Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations* line by \$42,000 and entered the amount on a new line item called *Donations and Forfeitures of Property* to match Treasury guidance.

Unpaid Obligations and Uncollected Customer Payments

September 2008 Statement of Budgetary Resources

In its previously issued financial statements, NEA mistakenly published an incomplete version of the Statement of Budgetary Resources, omitting certain line items and amounts from the report. The first line item omitted was the *Unpaid Obligations* line under the *Obligated Balance Net, End of Period* section of the statement. The second line omitted was the *Uncollected Customer Payments from Federal Sources* line directly under the *Unpaid Obligations* line mentioned above.

For the current presentation of the September 2008 Statement of Budgetary Resources, NEA added \$132,641,937 to the *Unpaid Obligations* line and added \$355,310 to the *Uncollected Customer Payments from Federal Sources* to replace the lines omitted from the 2008 published Performance and Accountability Report.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

Offsetting Receipts

September 2008 Statement of Budgetary Resources

In its previously issued financial statements, NEA presented the amount reported on the *Less: Offsetting Receipts* line as a positive amount on the Statement of Budgetary Resources. After review of Treasury guidance on the correct presentation of the amount on this line, it was determined that the amount should be reflected as a negative amount.

For the current presentation of the September 2008 Statement of Budgetary Resources, NEA changed the \$546,320 amount previously presented as positive to a negative amount.

Net Outlays

September 2008 Statement of Budgetary Resources

In its previously issued financial statements, NEA miscalculated the total reported on the *Net Outlays* line of the Statement of Budgetary Resources by adding the Offsetting Receipts line to the calculation instead of subtracting it.

For the current presentation of the September 2008 Statement of Budgetary Resources, NEA decreased the *Net Outlays* line by \$1,092,640 to reflect the correct calculation of net outlays to match Treasury guidance.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 18: Reconciliation of Net Cost of Operations to Budget

	2009	2008 (Restated)
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 204,735,654	\$ 151,527,789
Less: Spending Authority from offsetting collections and recoveries	(5,166,000)	(4,146,618)
Obligations net of offsetting collections and recoveries	\$ 199,569,654	\$ 147,381,171
Less: Offsetting receipts	(10,156)	(546,320)
Net Obligations	\$ 199,559,498	\$ 146,834,851
Other Resources		
Donations and Forfeitures of Property	\$ -	\$ 42,000
Imputed financing from costs absorbed by others	1,467,190	1,328,387
Other Resources	-	-
Net Other Resources Used to Finance Activities	\$ 1,467,190	\$ 1,370,387
Total Resources Used to Finance Activities	\$ 201,026,688	\$ 148,205,238
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services and Benefits Ordered but not received	\$ (36,987,109)	\$ (17,031,233)
Resources that fund expenses recognized in prior periods	(8,115)	-
Budgetary offsetting collections and receipts that do not affect net cost of operations	10,156	546,320
Other Resources or adjustments to net obligated resources that do not affect net cost of operations	(1,467,190)	(1,370,387)
Total Resources used to finance items not part of the Net Cost of Operations	\$ (38,452,258)	\$ (17,855,300)
Total Resources Used to finance the Net Cost of Operations	\$ 162,574,430	\$ 130,349,938
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring/Generating Resources in Future Periods (Note 14):		
Increase in Annual Leave Liability	\$ -	\$ 64,591
Other	(404,107)	(151,495)
Total components of Net Cost of Operations that will require or generate resources in future periods	\$ (404,107)	\$ (86,904)
Components not Requiring or Generating Resources:		
Depreciation and Amortization	\$ -	\$ 6,642
Losses on Disposal of Assets	-	-
Other not Requiring Outlay of Resources	1,360,328	634,403
Total components of Net Cost of Operations that will not require or generate resources	\$ 1,360,328	\$ 641,045
Total components of net cost of operations that will not require or generate resources in the current period	\$ 956,221	\$ 554,141
Net Cost of Operations	\$ 163,530,651	\$ 130,904,079

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 19: Changes in Certain Footnote Line Items and Amounts

For September 2009 presentation, the order of many of the individual footnotes changed compared to September 2008 in order to correspond to the order prescribed in OMB Circular A-136 (Revised June 2009). In addition, individual September 2008 Note disclosure amounts were changed for a variety of reasons. Refer to NOTE 17: Restatements for information on disclosures related to financial statement restatements. Changes in footnote formatting and corrections of data entry errors not impacting NEA financial statements are listed below.

NOTE 11: Intragovernmental Costs and Exchange Revenues

In its previously issued financial statement footnotes, NEA reported grant costs and related intragovernmental revenue in NOTE 10: Grants to the Public Costs and Intragovernmental Revenue. For the current presentation, NEA adopted OMB Circular A-136 guidance and reported intragovernmental costs and revenue separately from costs with the public for both September 2009 and September 2008.

NOTE 14: Undelivered Orders at the End of the Period (presented in 2009 as NOTE 15: Undelivered Orders at the End of the Period)

In its previously issued financial statement footnotes, NEA presented supporting amounts for the total *Unpaid Obligated Balance, net, End of Period*. NEA also included unpaid obligated balances in addition to the undelivered order amounts required by OMB Circular A-136.

For the current presentation, NEA revised the components of the Note and presented only the amounts related to total undelivered orders, divided between Direct and Reimbursable amounts. The paid portion of undelivered orders as well as accounts payable amounts were removed from the Note to comply with the requirements of the Circular.

NOTE 19: Reconciliation of Net Cost of Operations to Budget (presented in 2009 as NOTE 18: Reconciliation of Net Cost of Operations to Budget)

In its previously issued financial statements, NEA included a \$344 custodial collection in the amount reported on the *Less: Spending Authority from Offsetting Collections and Recoveries* line as well as the *Other* line under the *Components not Requiring or Generating Resources* section of NOTE 19: Reconciliation of Net Cost of Operations to Budget. In order to calculate a *Net Cost of Operations* amount in this footnote that matches the *Net Cost of Operations* amount reported on the Statement of Net Cost, custodial activity must be excluded from the calculations.

For the current presentation of the September 2008 NOTE 18: Reconciliation of Net Cost of Operations to Budget, NEA reduced the *Less: Spending Authority from Offsetting Collections and Recoveries* by \$344 and NEA also reduced the *Other* line by \$344 in the *Components not Requiring or Generating Resources* section of the footnote.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2009 and 2008
(In Dollars)

NOTE 20: Donations In-Kind

During FY 2009, NEA received in-kind gifts from several organizations. Gifts included payment of NEA staff travel, lodging, and meals, as well as payment of NEA staff registration fees to attend and/or participate in various arts related functions. Other in-kind support included award luncheon hosting and studio time for the Big Read program. The total value of these in-kind donations was \$22,779 in FY 2009.

In FY 2008, the NEA received a 2008 Ford Escape Hybrid from the Ford Motor Company, for use in association with The Big Read program and for other agency business. The fair market value of the donated vehicle is \$35,000.00. In addition, Ford Motor Company designed and installed a vehicle wrap at a cost estimated at \$7,000.00, for a total contribution of \$42,000.00. As it does not meet the capitalization threshold, nor would it have been purchased if not donated, it will not be shown as an asset or capitalized.

In FY 2008, the NEA continued its partnership with XM Satellite Radio, which aired a series of NEA-produced Jazz and Literary “Moments”. The total fair market value of the donated air time for these public service announcements, which ran numerous times each month on a number of different XM channels, is estimated at \$279,000. Additionally, the NEA and XM continued to partner on the radio broadcast series focusing on the books and authors featured in the NEA’s Big Read initiative. This series included NEA-produced content, and thus the air time provided by XM for these segments would be considered an additional in-kind donation. The NEA would not have purchased the public service announcements, and the program series air time isn’t for sale. In accordance with applicable guidance, the value of these contributions is not recognized in the financial statements.

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NATIONAL ENDOWMENT FOR THE ARTS

The Nancy Hanks Center
1100 Pennsylvania Avenue NW
Washington DC 20506-0001
202/682-5400

Office of the Chairman

November 16, 2009

Ms. Auvonett Jones
Acting Inspector General
National Endowment for the Arts
1100 Pennsylvania Ave. NW #601
Washington, DC 20506

Dear Ms. Jones:

Thank you for managing the audit of the Arts Endowment's Fiscal Year 2009 financial statements, and related review of our internal controls and compliance with laws and regulations, as required by the Accountability of Tax Dollars Act of 2002. This was the Arts Endowment's seventh full financial audit, and we are proud to have received once again an unqualified opinion.

We appreciate the time and effort committed by you, your colleagues, and the auditors from the independent accounting firm of Leon Snead & Company, P.C., who worked on this audit. We take our financial accounting and reporting responsibilities seriously, and welcome your oversight and insight to strengthen our financial operations.

Sincerely,

A handwritten signature in blue ink that reads "Rocco Landesman".

Rocco Landesman
Chairman

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NATIONAL
ENDOWMENT
FOR THE ARTS

A great nation
deserves great art.


The Nancy Hanks Center
1100 Pennsylvania Avenue NW
Washington, DC 20506-0001
202/682-5400
www.arts.gov

MEMORANDUM

Memo 10-02

DATE: October 31, 2009

TO: Rocco Landesman, Chairman

FROM: Tonie Jones, Acting Inspector General 

SUBJECT: Top Management Challenges for the National Endowment for the Arts

The National Endowment for the Arts (NEA) is required to submit a Performance and Accountability Report (PAR) to the Office of Management and Budget (OMB) in November 2009. The PAR contains a number of sections that address issues ranging from performance to financial management. OMB Circular A-136, *Financial Reporting Requirements*, requires that the Inspector General provide the agency head with a summary of the top management and performance challenges facing the agency.

After careful analysis, it is our assessment that the areas of Financial Management, Human Capital, Information Technology, and Grantee Accountability represent the top management and performance challenges for the National Endowment for the Arts. The rationale for our perspective on each is outlined below.

The Office of Inspector General (OIG) has strong support from NEA management and looks forward to working with you as we address matters of mutual interest. We also welcome any comments to our assessment.

Financial Management. Since October 2004, the NEA has contracted with the Department of Transportation's Enterprise Services Center (DOT-ESC) to provide NEA with its first Office of Federal Financial Management (OFFM)-compliant system.

During FY 2009, the NEA automated its financial statements. Data is entered once into the trial balance and that data is automatically mapped to each statement, as applicable. Integrity data checks were built in to identify any incorrect or missing data entry. A more efficient cost accounting methodology was also developed to report on expenses by goal, which was incorporated for FY 2009 (and comparatively for FY 2008).

The NEA continues to work with the DOT-ESC agencies on a multi-year business process review of accounting codes, transactional flows, reporting and information sharing, in anticipation of the Federalized Version of Oracle 12i. DOT-ESC is also working with Oracle to provide insight and direction for this future major upgrade.

The NEA received an additional \$50 million appropriation through the American Recovery and Reinvestment Act of 2009 (ARRA) that requires the agency to obligate all funds by September 30, 2010. The agency successfully created ARRA programs, processed applications, selected panels, and awarded (obligated) 99 percent of funding by August 2009 to preserve jobs in the arts. As of September 30, 2009, 17 percent of that funding was disbursed.

Human Capital. Maintaining the right combination of technical knowledge and expertise continues to be essential to the NEA completing its mission. The NEA is in the midst of transitioning to a new administration which presents a number of challenges in the human capital arena such as recruiting new staff, re-organizing current offices and revising strategic and programmatic objectives. The Office of Human Resources (OHR) will educate political appointees on the various human capital rules, regulations and flexibilities. The OHR will also, in collaboration with senior staff, continue to assess human capital vulnerabilities agency-wide and try to address these areas through the most effective and efficient manner possible. These assessments will include utilizing the results of employee surveys and in-house data analysis.

Information Technology (IT). The rapid changes in both information technology and Federal requirements provide an ongoing challenge to all Federal agencies. The *E-Government Act of 2002* addressed various aspects of Federal IT management and the promotion of electronic government services. It also required improvements in the methods by which government information, including information on the Internet, is organized, preserved, and made accessible to the public.

In recent years, NEA successfully adapted its application management processes to accommodate electronic applications submitted through Grants.gov. NEA's IT staff developed an interface between the Grants.gov system and NEA's grants database, plus various tools for use by NEA staff in working with e-application materials. IT staff also developed the means for reporting on the agency's grant awards to USAspending.gov, as required by the Federal Financial Accountability and Transparency Act (FFATA).

NEA's top information technology management challenge continues to be the need to transition to a new, more robust grants management system (GMS). In 2007, OMB approved NEA's plan to partner with National Endowment for the Humanities (NEH) on a new GMS under the Grants Management Line of Business (GMLoB) initiative. After negotiating a service level agreement with NEH, work on the project commenced in 2008. Work then came to a halt earlier this year so NEA could focus all agency resources on its American Recovery and Reinvestment Act grant program. As a result, the new GMS project is behind schedule. Transition to the new system is now unlikely to occur before FY2011. Key transition tasks will include identifying and addressing "gaps" between the NEH core system and NEA-specific processes; and re-engineering not only

the current interface with Grants.gov, but also the entire suite of tools developed for working with e-applications. The anticipated end result, however, will be improved efficiencies in application, grant processing and services to Agency constituents.

New government-wide requirements for information security in recent years provide challenges to all federal agencies, including the NEA. The *Federal Information Security Management Act of 2002* (FISMA) requires each Federal agency to develop, document, and implement an agency-wide information security program to provide information security over the operations and assets of the agency. As noted in the OIG's required evaluations of information security during the past few years, the NEA has made significant progress to comply with these requirements despite limited resources to devote to this effort.

Privacy reporting has been made part of the FISMA reporting process in light of the occurrence of data theft and losses at several Federal agencies. The E-Government Act and Privacy Act provide legislative guidance for the control and dissemination of personal information and personally identifiable information. While NEA complies with these laws and has revised its privacy policy to improve guidance and control, this will continue to be an area requiring attention.

Grantee Accountability. As the nation's largest public funding provider for the arts, NEA awards approximately 2,300 grants and cooperative agreements annually. The arts organizations supported vary considerably in size and in experience in financial management, particularly as they relate to Federal financial management requirements. The continuing challenge, facing each Federal grant-making agency, is to ensure that recipients adhere to and comply with the applicable fiscal requirements.

To assist grantees in these efforts, the NEA provides either a hard copy or a website reference to the *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)* and the *OIG Financial Management Guide for Non-Profit Organizations (Financial Management Guide)*. The *General Terms* incorporate Office of Management and Budget requirements, Federal laws, rules, regulations, and Executive Orders that apply to grants and cooperative agreements. The *Financial Management Guide* provides practical information on what is expected from grantee organizations in terms of fiscal responsibility. The NEA enhances its communication with grantees through a Web-based program that provides all grantees with general information on the status of their grant – including amount awarded, grant period, amount disbursed, and the status of required final report submission. The NEA's Grants and Contracts Office also provides considerable technical assistance via telephone.

There continues to be a limited number of grantees that have not complied with all applicable federal grant requirements. These organizations are typically identified by the NEA's Grants and Contracts Office and referred to the OIG for audit or review. Upon evaluating these organizations, the OIG generally has three common findings: failure to comply with the requirement that costs be accounted for separately by grant award; that actual costs incurred be reported on the final Financial Status Report; and that a Section

504 self-evaluation be on file at the organization. Occasionally, the OIG finds that some grantees are not maintaining personnel activity (time sheets) reports prorating the actual time charged to NEA grants.

This year an additional level of effort has been vital to meet and manage the requirements of the American Recovery and Reinvestment Act of 2009 (Recovery Act, or ARRA). The \$50 million NEA was awarded is to “support the preservation of jobs that are threatened by declines in philanthropic and other support during the current economic downturn.” Agencies were directed to meet a number of requirements, including issuing grant opportunity announcements and making awards in a very short time frame. NEA awarded 693 grants. A new, part-time grants specialist was hired to help guide the implementation and monitoring of the ARRA program’s requirements. In addition, a staff person was reassigned to the Grants & Contracts office in July, 2009, and four other staff persons have been delegated to specifically work on the ARRA program. The Grants & Contracts staff, in conjunction with the additional staff members, have developed and are implementing plans to assist the grantees to maintain compliance with the *ARRA Special Terms and Conditions*, as well as the standard *NEA General Terms and Conditions*.

We acknowledge and encourage the NEA’s efforts to continue identifying opportunities to improve grantee compliance with government-wide grant requirements. Implementation of Web-based and technical assistance efforts in our opinion will improve the likelihood of grantee compliance, irrespective of past experience in managing Federal awards.

cc: Joan Shigekawa, Senior Deputy Chairman
Larry Baden, Deputy Chairman for Management and Budget
Nicki Jacobs, Grants and Contracts Officer
Sandy Stueckler, Accounting Officer
Mike Burke, Chief Information Officer
Angelia Richardson, Director, Civil Rights/EEO
Craig McCord, Director, Human Resources
Monica Waters, Auditor
David Duchow, Auditor



Office of the Chairman

MEMORANDUM

A handwritten signature in blue ink, appearing to be 'RL'.

DATE: November 2, 2009

TO: Tonie Jones, Acting Inspector General

SUBJECT: Response to OIG Memorandum Concerning Top Management Challenges

Over the years we have enjoyed a strong and positive working relationship with the Office of Inspector General (OIG). We appreciate and concur with your observations, and offer the following comments.

Regarding *financial management*, reliance on the Department of Transportation's Enterprise Services Center and their DELPHI system has markedly improved the quality and reliability of our financial management program and our ability to produce accurate and responsive financial statements. Our knowledge of the DELPHI system continues to increase and our plan to train staff on the system has progressed on schedule. We believe that the knowledge we have gained while using this system also affords us the opportunity to actively participate with DOT in their efforts to upgrade the DELPHI system.

Grantee accountability has clearly improved as a result of our joint efforts during the past few years. We acknowledge the common findings identified by the OIG and plan to undertake discussions with your office on additional ways in which we can better communicate these requirements to grantees.

Increased reliance on *information technology* (IT) is critical to all organizations, particularly a Federal agency charged with grant-making. IT affords organizations opportunities to improve productivity, efficiency, and effectiveness. It also provides the means by which an organization can improve its ability to communicate with internal and external customers and to ensure transparency in its operations. Effective use of information technology was key to our ability to successfully develop and implement our Recovery Act program within four months after the signing of the Act.

With our staffing level remaining relatively stagnant in size for the past few years, while workloads have increased during the same time, *human capital management* has become increasingly important. Ensuring the appropriate competencies and skill sets is an imperative, and one addressed by the Agency routinely. Of particular concern is succession planning. We have taken a number of steps over the past few years in recognition of our limited number of positions and the potential for significant numbers of departures due to retirement. Some of these steps include: (a) the establishment of entry-level discipline-based professional positions in the various arts fields; (b) establishment of the Agency's first Federal Career Intern Program (FCIP); and (c) the establishment of three new positions (one each) in the areas of AccessAbility, Indemnity, and International programming – important Agency endeavors previously supported solely with one individual for each area.

We appreciate the OIG's recognition of the progress the Agency has made in several areas. Again, we thank you for your observations and look forward to working with you on these and other matters of mutual concern.